ECONOMIC AND POLITICAL WEEKLY

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MANUFACTURING PRODUCTIVITY GROWTH: METHOD AND MEASUREMENT

BIHAR: STATE, CLASS AND 'SENA' NEXUS

NEW ECONOMIC POLICY AND OLD TRADE UNIONS

URBAN LOCAL GOVERNMENT IN PAKISTAN

RUKHMABAI: WOMAN'S RIGHT TO HER PERSON

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- AFGHANISTAN: 'GREAT GAME' RENEWED
- ASSAM: BUSINESS AS USUAL DESPITE POLITICAL CHANGE

ECONOMIC AND POLITICAL WEEKLY

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Director S L Shetty

Indian Industry: Measuring Productivity

Work on productivity measurement in Indian industry has left unaddressed several critical issues of method and the correspondence between theoretical measures and the indicators used. Before issues of interpretation are engaged, these methodological issues need to be clarified and, where possible, the measures recast. 2927

Rukhmabai and Woman's Right to Her Person

In September 1885 an extraordinary judgment was delivered by the Bombay High Court in a suit for restitution of conjugal rights. The verdict rescinding Dadaji Bhikaji's claim to restitution of conjugal rights over his wife, Rukhmabai, snowballed into a lively tussle between the Anglo-Indian press and the native press. While the Anglo-Indian press was exultant at the proven moral superiority of the British legal system, the native press was alarmed at the threat of socio-cultural subversion of Hindu family and society posed by the judgment. Only in the writings of a few reformers do we find a justification of the judgment based on a native discourse of conjugal rights. 2937

Kashmir: Facing the Issues

Now that cynical realism believes it has won some sort of a victory in Kashmir, it is time to talk of some principles – principles pertaining not only to the way the rulers of India have been dealing with Kashmir, but also the way progressive and democratic-minded Indians have been responding to Kashmir and to the problems stemming from the mode of expression of the demand for Kashmiri self-determination. 2916

Investment, Exports and Growth

While the role of investment in promoting growth seems empirically well established, that of openness to trade is still subject to several ifs and buts. Much of the recent theoretical literature on endogenous growth is similarly ambivalent on the impact of trade policy. 2954

Assam: Elusive Peace

The people of Assam had hoped that the political change in Dispur and New Delhi would revive democratic efforts to restore peace through negotiations. But these hopes have been dashed as both the government and the ULFA are back to their old routine, to the delight of the shady politician, the smuggler and an assorted group of antisocials. 2903

Oppressive Nexus

The Bathani massacre in Bhojpur district of central Bihar once again highlights the ongoing suppression of the struggles of the underprivileged by the private armies of the upper castes in alliance with middle caste state apparatus. 2908

On Two Fronts

The condition of the working class and the trade unions under the New Economic Policy takes us back to the pre-independence days when the working class had to fight simultaneously on two fronts: the local capitalists and the foreign imperialist. It is a time for preparing the working class and their organisations, especially those of the organised sector, not for fighting for new economic benefits, but for providing leadership to the great political battle ahead. 2905

Local Government Undone

In Pakistan, democratically elected local governments have been made impotent by democratically elected members of higher provincial and national assemblies. While extensive legislation exists which could permit the effective role of local government in development, the severe financial constraints faced by these governments have meant that they are no longer involved in the process of development. 2948

'Great Game' Renewed

Indian foreign policy always perceives regional issues from the perspective of its rivalry with Pakistan. This is evident in official assessments of recent events in Afghanistan which are obsessed with Pakistan's role in the Taliban victory but silent on the US connivance. To gain credibility in the region, India also needs to take a stand on the human rights issues thrown up by the Afghan situation. 2913

Denial of Passport to Journalist

M N RAVUNNI's (secretary, central propaganda committee, Communist Party of Kerala (KCP) and chief editor *Munnaniporali*) battle to break the illegal, undeclared ban on his travel reached a crucial stage when the Kerala High Court rejected the passport issuing authority's explanation and sought a detailed reply. Ravunni had applied for his passport in July 1995. Repeated reminders and a lawyer's notice were ignored by the authorities who simply kept saying that they needed more time to 'collect' information about him. In fact, they were using delaying tactics to disrupt his possible travel plans and prepared a dossier on his revolutionary journalist activities. The brief submitted to argue Ravunni's case at the high court pointed out that the government not satisfied with locking up this courageous internationalist fighter for 16 years in the jails was now intent on detaining him within the walls of India. It challenged the government's claims of adhering to the Constitution since it was denying Ravunni freedom of movement granted by Article 21. Apart from stating that Ravunni figures on the all-India and state security lists the government had no reply to these charges. These so-called security lists are notorious for the way they are prepared according to the current whims and fancies of the rulers. They also highlight the real nature of Indian democracy which continues to implement colonial police state rules under a thin veil of legality.

Ravunni has a long record of nearly 40 years of communist activity, despite detention, torture and death threats. He has been in the forefront of solidarity activities with the oppressed in India and abroad. If the Indian state succeeds in imposing a ban on his movement this would have serious repercussions for the progressive forces and would strengthen the black laws regime being built up by the state in accordance to the needs of its IMF-World Bank advisors. The fact that a person of Ravunni's stature and unstinted record of serving the people is denied his basic right to a passport by the very authorities notorious for their repeated foreign jaunts spending valuable foreign exchange and now on trial for their illegal foreign exchange rackets is an ironic exposure of the true state of affairs in this country.

We appeal to all justice loving, progressive and democratic people to protest against the denial of a passport to Ravunni.

RAGHU NATH P K and editorial team of *Munnaniporali*

Mundur PO,
Palakkad

Secularism and Islam

THIS has reference to 'Secularism: Bench-Marked by Hindu Right', by Brenda Cossman and Ratna Kapur (September 21) where they say (p 2625) that the Muslim community in India is a culturally distinctive group. Perhaps it might be worthwhile to dwell on what are the distinctive features which separate them from the Hindus, Christians, Parsis and Jews in this country. Obviously, the main characteristic is their belief in Allah and that Mohammed is the last (and, therefore, the best) prophet, which is the central feature of the religion called Islam. There are many other countries where there are people following Islam - in some they are a majority, and in some a minority. How are these Muslims culturally different from the Muslims in India? After all, if the Muslims in India have a culture based on Islam, then there should not be any difference. If one were to accept this (and I am not sure whether the Muslims of, say, Iraq will acknowledge that they are culturally similar to the Muslims of, say, Iran, let alone India), then the cultural roots of the Muslim citizens of India are outside the geographical borders. And in these roots then personalities like Lord Ram and Lord Krishna have no role, and it will be people like Babar and Aurangzeb who will be their heroes. This will mean that the slogan, 'Hindu-Muslim Bhai-Bhai', coined by Mahatma Gandhi becomes meaningless.

If Cossman and Kapur have a different interpretation, perhaps they would like to expound the same. In this respect, they may wish to consider what Babasaheb Ambedkar had to say in declining to convert to Christianity and Islam. By joining Islam or Christianity, the depressed classes would 'not only go out of the Hindu religion, but also go out of the Hindu culture...Conversion to Islam or Christianity will denationalise the depressed classes.' (D H Keer, *Dr Ambedkar, Life and Mission* (second edition), pp 278-79, Popular Prakashan, Mumbai, 1962. Cited from *The Times of India*, July 24, 1936. Quoted in 'The Personal Law Question and Hindu Nationalism', by Dieter Conrad in V Dlamia and H von Stietencron (eds), *Representing Hinduism – The Construction of Religious Traditions and National Identity*, Sage, 1995.)

ASHOK CHOWGULE

Mumbai

Warner's Entry

THE American conglomerate, Warner, has been given permission to build a network of movie houses in India. Films have been and remain the most important medium of mass communication in India. Introducing foreign control of this medium in India is even more harmful than foreign control of the print media which has always been opposed by the Indian government and press – by the latter in its own economic interest. There is no such economic self-interest operating against Warner's entry. It is not difficult to guess that some quid pro quo - in the form of huge bribes that we have become familiar with or media coverage that Rao was totally denied during his US visit – was received by members of the Rao government which took this step to the detriment of the country. This step must be reversed. Time Warner moved to take control of the American TV network, CNN, after the controversy opposing CNN having been allowed round-the-clock use of a Doordarshan channel. That issue has been forgotten in India but CNN's use of the Doordarshan channel continues. Whether or not Rao and his cabal of criminals are tried for that step, that step also must be reversed.

SATISH CHANDRA

Delhi

In the FIIs' Thrall

THE prolonged sluggishness in the secondary and primary segments of the capital market has brought up the question of the market's role in the economy. Unfortunately the authorities continue to generate exaggerated expectations from the share market by taking measures which only reinforce various distortions in the functioning of the financial system in general and the capital market in particular. Wittingly or unwittingly, the financial sector reforms have meant a shift from a bank-based financial system to one based on the vagaries of the stock market. The development experiences of Japan, Germany and the east Asian economies on the one hand and the Anglo-Saxon countries on the other suggest that industrial finance provided by banks and financial institutions is more steady and assured than that coming from the capital market. Dependence on the capital market brings with it problems of sharp fluctuations in fund flows acting as real and psychological barriers to industrial investment, stiffening of the cost of capital, compulsion for companies to make high dividend pay-outs preventing sufficient plough-back and uncertainties arising from take-overs and mergers. Large corporate savings, which played an important part in the growth of the east Asian economies, were possible because their manufacturing companies were not at the mercy of stock markets which provided only a small proportion of industrial finance in these countries.

In the Indian case, all the above problems have begun to surface, with a major contribution coming from some of the principal components of financial sector reform – competition for funds among banks, financial institutions and non-banking finance companies (NBFCs), deregulation of the interest rate structure, and freeing of portfolio capital flows. Instead of focusing on strengthening the institutional base of the capital market with a view to curbing speculation, instituting a sound depository system, regulating the number and quality of market intermediaries such as merchant bankers and, above all, revitalising the SEBI, the government has plumped for measures which have further stimulated speculation. Most important has been the emergence of foreign institutional investors (FIIs) as dominant players to a point where the initiative in influencing the market has almost completely slipped out of the hands of the authorities. The market has refused to respond to a series of measures to entice the domestic investor, reducing the authorities, from the finance minister down, to relying on the FIIs to come to the market's rescue. However, the large purchases and sales by the FIIs have caused share prices to zigzag when the authorities have desperately wanted the market to be pushed up.

Given the powerful presence of the FIIs, the share market has seemed to ignore as non-events measures taken by the authorities to revive the ordinary investor's interest in the equity market. In his budget in July the finance minister had raised the 5 per cent limit on investment by an FII in a company to 10 per cent and permitted FIIs to invest in the shares of unlisted companies, but the market went into a tailspin probably because of the introduction of the minimum alternative tax (MAT) on companies. The BSE sensex (1978-79=100) fell from its pre-budget peak of 4,067 on June 18 to 3,281 on August 19, a fall of 19.3 per cent in a two-month period. Becoming panicky, in early September the financed ministry announced tax concessions on investment in mutual funds including the UTI, raised stock-lending limits from Rs 5 lakh to Rs 10 lakh and, more significantly, permitted FIIs operating dedicated debt funds to increase investment in debt instruments from 30 per cent to 100 per cent of their funds (excluding government debt). The government also asked the financial institutions and UTI to step up their stock market activities. But the consequential improvement in share prices was small and short-lived because net FII investments were slack in August and September. The FIIs had substantially larger gross sales as a proportion of their gross purchases during this period, over 55 per cent compared with the usual 25 per cent. Anticipation by the market of disinvestment of PSU shares by the government may have been partly responsible for this. The BSE sensex fell to 3,099-3,130 on the eve of the RBI's busy season credit policy announced on October 19. The RBI's attempt to boost the market by permitting banks to purchase shares and debentures in the secondary market again yielded only a short-lived improvement in share prices, with the BSE sensex moving up to 3,342 on October 23 followed by a sharp fall. And now the upgraded SEBI board has announced a series of institutional measures including allowing the BSE to extend its on-line trading system to other cities irrespective of whether these cities have stock exchanges or not, reducing the minimum application size in primary issues from Rs 5,000 to Rs 2,000 and, above all, giving up vetting of offer documents and instead focusing on inspection of merchant bankers. But these steps too have failed to produce the desired results and the sensex has slipped further to a recent low of 3,069 on November 5, a fall of 273 points or 8 per cent since the post-credit policy peak.

Such incremental measures would have had some effect if retail investors had some influence over the market which is dominated by the 413 FIIs registered with SEBI. So far they have made gross cumulative purchases worth Rs 31,300 crore and gross sales worth Rs 9,704 crore, or a net cumulative

investment of Rs 24,000 crore ($ 6.96 bn). Apart from their influence on share prices, the FIIs have not been above manipulating the market. The latest to complain has been Videsh Sanchar Nigam (VSNL) which has charged four major FIIs with bear hammering of its stock just prior to its GDR offering. The VSNL's fears are well-founded, its share price having fallen by nearly 30 per cent from Rs 1,327.50 on July 22 to Rs 950 on October 15. If the PSU is unable to float its proposed $ 400 mn GDR issue this time, this will be its third abortive attempt to raise resources through GDRs. There had been a similar attempt by some FIIs on the eve of the issue of GDRs by State Bank in October. Of course, the finance ministry is right that the government does not have powers to intervene in the investment decisions of foreign portfolio investors and that there is no law prohibiting FIIs from selling shares prior to a disinvestment operation or a Euro-issue. It could be argued that these are normal profit-taking exercises and the only investigation could be into possible short-selling of the particular shares. Even so, the fact remains that on many occasions PSU share disinvestment and GDR issues have suffered on account of the operations of FIIs.

This raises the basic question of the wisdom of the decision taken in 1992 to permit the FIIs to make portfolio investment in the Indian capital market under a highly favourable tax dispensation: 10 per cent on long-term capital gains, 30 per cent on short-term capital gains and 20 per cent on dividend and interest income. The volatility of such portfolio investment is well known. Total portfolio equity flows to developing countries, which were between $ 4 bn and $ 14 bn from 1990 to 1992, shot up to $ 45.6 bn in 1993 and $ 34.9 bn in 1994 but again slipped to $ 22 billion in 1995 because of the fluctuating interest rates in the developed countries. In India's case, when the market was opened up in 1992, the FIIs were lukewarm because the price-earning(P/E) ratios were considered high at 35 to 40. But though P/E ratios rose further to 45 to 50, there was a sudden spurt in FII investments during January to October 1994 because the investment climate in the western countries had turned adverse. With the Mexican crisis and the reluctance of portfolio investors to commit themselves in the emerging markets, 1995 saw a sharp reduction in their investments in India. There has been some revival of interest in 1996 after profit-taking towards the end of 1995. With a stock of nearly $ 7 bn (Rs 24,000 crore) in net investment, the purchases and sales of FIIs are bound to significantly determine the behaviour of the market. In the current calendar year up to October 25, gross purchases of FIIs have aggregated Rs 13,620 crore and gross sales Rs 3,815 crore. These are bulk transactions, mostly concentrated in blue chips, with enormous influence over market trends. The government has begun to find out that its own measures have little enduring effect on the market.

At the macro level, the cost of FII funds to the domestic economy is high, anywhere between 18 per cent and 20 per cent per annum in rupee terms. Thus on gross investments of about Rs 31,000 crore, the FIIs would have so far appropriated, as a crude measure, about Rs 12,400 crore over a period of two years or so. FIIs take into account dollar yields of about 4 per cent to 6 per cent and inflation differentials of about 8 to 10 per cent and some risk premium. Almost all FIIs come to India through the Mauritian route for tax purposes and pay minimum taxes in India. Against this background, the government needs to reconsider the role of FII investment. No doubt the financing needs of the infrastructure sector are sizeable, but GDR issues by the existing Indian companies may be a more worthwhile alternative as also raising resources through the newly set up Infrastructural Development Finance Company (IDFC).

THE ECONOMY

In the Name of the Poor

THE two nominees of the CPI in the union cabinet, though holding major portfolios, have had to face public discomfiture on more occasions than one when it has become apparent that major decisions of the government have gone against the known positions of their party. The former party general secretary, Indrajit Gupta, has had to wriggle out of difficult situations of this kind by plainly confessing that in regard to this or that decision of the government he had been kept in the dark, notwithstanding that he actually happens to be the home minister in the United Front government.

The recent visit to this country of the president of the World Bank, James D Wolfensohn, however, at last provided an opportunity for the communists in the government to come into their own and to be seen to be asserting themselves. Wolfensohn and his team called on Chaturanan Mishra, the prominent CPI leader and currently the union agriculture minister, and pressed upon him the well known World Bank package of policies, including removal of restrictions on trade in agricultural commodities, especially on their export, and an end to government subsidies in different forms to the farm sector. The next day's newspapers carried prominent reports of how the agriculture minister had stood firm in the face of the World Bank's demands. In particular it was mentioned that Chaturanan Mishra had told the World Bank president that there was no question of doing away with the agricultural subsidies so long as 80 per cent of the country's farmers were small and marginal.

On the face of things it may seem that Chaturanan Mishra showed just the kind of spunk that Indian policy-makers should be giving more evidence of, in the face of the stereotyped free market shibboleths of the IMF/World Bank combine. A little consideration would however show the matter to be not quite so simple.

In fact Chaturanan Mishra's statement is just the kind of pronouncement which leaders of the government and of political parties have regularly made through the entire period when a socialist pattern of society was supposedly being created and the economy was moving from one Five-Year Plan to the next and the one after that. These pronouncements were expected to be taken on trust and, what is more, they have been, not by the poor perhaps but certainly by those who are supposed to concern themselves with such matters. This was not accidental by any means, not if the shopsoiled cliche about pursuit of class interests has any truth attached to it. For, in the process a whole range of arrangements have been created and carefully closeted against any sort of probing and questioning in the name of the poor but actually for the benefit of the relatively well-off.

Take the case of the union agriculture minister telling the World Bank president off on the subject of abolition of agricultural subsidies. What, come to think of it, is the connection between the extant subsidies to agriculture and small and marginal farmers? The subsidies that the World Bank president was asking the government to review and which the agriculture minister was defending are those extended to farmers using agricultural inputs, mainly power, fertilisers and irrigation water. What proportion of the consumption of these inputs is accounted for by small and marginal farmers and what part of the considerable amounts spent by the government on subsidising their use goes to benefit this section of farmers? Should not some hard evidence on this matter be made available instead of it being taken to be self-evident that all interference with the present scheme of agricultural subsidies – put in place by successive governments at the centre and in the states about whose concern for the poor the communist minister of agriculture does, or at any rate should, entertain grave reservations – would be to throw small and marginal farmers to the wolves?

The market, to be sure, is not the most just, and quite often not even the most efficient, allocator of resources among alternative purposes. But for that reason the task of apportioning resources among different uses and different groups of beneficiaries does not cease to exist and those in the government who claim to speak for the poor cannot evade facing the question whether the really poor would not be enormously benefited if large sums were to be saved out of what has been doled out year after year by the central and state governments in the name of agricultural subsidies and were to be made available to be spent instead, to mention just one of so many possibilities, on a programme of compulsory primary education in the rural areas. This may not be what the World Bank and the IMF have in mind when they ask for the withdrawal of subsidies, but surely there can be no harm if the communist members of the ruling United Front, those in the government and those outside, turn their thoughts to such matters once in a while.

THE PRESS

Different Threats

A correspondent writes:

WHEN the whole national and regional press was up in arms against what appears to have been a provoked attack by the Bahujan Samaj Party leader, Kanshi Ram, on media persons in New Delhi, a far more insidious way of muzzling the press was being tried out in Mumbai. *Aaj Dinank*, a successful Marathi eveninger, had to abruptly stop publication on October 16 under the none-too-hidden directives of Shiv Sena bigwigs.

Aaj Dinank, which had been coming out for three and a half years, was jointly owned by Kapil Patil, the editor of the tabloid, Lalsingh Rathod and Bhupesh Patel. Lalsingh Rathod, who is a member of the Maharashtra legislative council, was elected as an independent with the backing of the Shiv Sena and the Progressive Democratic Front. Bhupesh Patel is the brother of Mukesh Patel who is a Shiv Sena MP in the Rajya Sabha and the owner of the Autoriders group of companies. While Patil and Rathod each had a 30 per cent share in the company bringing out the tabloid, Bhupesh Patel owned the remaining 40 per cent. When the daily was launched in 1993, neither Rathod nor Mukesh Patel apparently had any links with the Shiv Sena. In fact, Rathod was then an MLC with Congress support while Mukesh Patel was confined to his business.

Right from the beginning the eveninger had been critical of the Shiv Sena. In fact, its office had become the target of the Sena's attack in 1993 when it leaked the news that Dattaji Salvi, leader of Bharatiya Kamgar Sena, was to be removed on the instructions of the Shiv Sena chief. Kapil Patil, the editor, has been in the forefront of organising the OBCs in the state since 1978. He is one of the founders of the recently established all-India Muslim-OBC organisation. As part of this initiative, he was close to Chhagan Bhujbal who had launched the Samata Parishad to gather the OBCs under the Congress banner after his break with the Shiv Sena. Though there was no interference in the editorial policy from the other two partners, the line pursued by the paper became a cause of anxiety to them, especially after they moved closer to the Sena. The eveninger was also the first in the Marathi press to publish an editorial on the Ramesh Kini episode. The editorial had also drawn attention to the systematic uprooting of Marathi-speaking people from south and central Mumbai because of the Shiv Sena's connivance with wealthy commercial interests and had challenged the Sena's claim to represent the sons of the soil.

What proved to be the immediate cause of the closing down of the daily was a report carried by it on October 15 that the brain of Ramesh Kini was missing during the second post-mortem. The Sena high command, which has become very sensitive to the issue after the implication of Raj Thackeray in Ramesh Kini's death, immediately put pressure on Rathod and Mukesh Patel to instruct the editor to adopt a 'soft line' and if he did not do so to sack him. It was even suggested that a new editor be brought in to keep the eveninger running. But since Patil was part owner of the venture, it was not possible for the partners to 'sack' him. With Patil refusing to take a 'soft line', the paper had to be closed down to achieve the Sena's objective.

Superficially, the closing down of *Aaj Dinank* can be made to look as if it was the result of differences between the editor and the owners of the newspaper. But the circumstances in which the closure came about make it obvious that the matter was not so simple. Organisations such as the Shiv Sena have many different ways of suppressing

free speech. The Press Council has launched an enquiry into the incident involving Kanshi Ram and the newspersons. It may be no less worth the Council's while to look into the disappearance of the Mumbai eveninger.

NICARAGUA

A Different Path

THE Sandinista leader Daniel Ortega's defeat in Nicaragua's presidential election, though currently under some dispute, is not so much a vote of confidence in the conservative Liberal Alliance, but a vote of lack of confidence in the Sandinistas and their ability to pull the country out of the mess that it is in today. Since 1990 when the Sandinistas lost power, the economy has deteriorated and has become severely debt-bound, with the most visible signs being the worsening health indices, rising unemployment and growing number of loss-making landholdings, etc.

Though the details of the voting pattern in the presidential election are not available, reports indicate that the Sandinista leader got less than 40 per cent of the votes against the conservative Arnoldo Aleman. (Under the Nicaraguan system, the winner needs at least 45 per cent votes to avoid a second round.) While on the one hand, this only means a continuation of the US-led policies of Violetta Chomorro, for the Sandinistas it is a big setback. In the six years that they have been out of power – Daniel Ortega and the Sandinistas had lost to Chomorro in an election called by the then Sandinista government – the Sandinistas have not been able to establish a consistent people-backed movement against the Liberal Alliance in power. There have been many reasons for this. In the first place, even in 1990, the Nicaraguan economy was reeling under the heavy cost of a long war with against the US-backed Contras. The Sandinistas' agrarian reform, the core of their transformation programme, as Ortega himself admitted in an interview in 1994 to the *Multinational Monitor*, had become something of a millstone around their neck; their health services, radically different from that in any other socialist country, which had contributed so tremendously to the improvement of the health situation in the country, were beginning to crumble under the onslaught of the US-Contra strategy of hitting 'soft' targets and breaking the "social expression of the revolution"; and most of all, the Nicaraguan economy was tottering under the pressure of embargoes, the lack of capital and a shrinking industrial base, especially after aid from the socialist countries began to dry up. Some sections of the Sandinistas had then argued that the time was not ripe for the sort of democratisation undertaken by Ortega. The Sandinista strategy after they lost power was to hold on to some rungs of the government and its agencies, to ensure that as many of the Sandinistas' programmes as possible were continued.

What appears to have happened, however, is that the Sandinistas have not been able to make their presence felt in the areas where they chose to be active in. Instead, they have come to be seen by the people, with ample help of course from the right-backed media and the government, as obstructing the functioning of the government and sabotaging the forces of change. Even with regard to the presidential election, ironically enough, the fact that the Sandinistas held several important positions in the election commission had led to speculation that the election process may be rigged in favour of the Sandinistas. The election commission is responsible for registering voters, distributing ballot papers to the various centres and so on, and there were suspicions about whether the Sandinistas might not, simply by dragging their feet, ensure that the rural areas where Alemo had support were not well serviced. As it happened there was large-scale confusion about the distribution of election services in large areas, but this was actually due to unexpected inclement weather. However, it would be a difficult task to unravel just how free and fair the elections were, because unlike the last elections this one had few neutral observers overseeing the process.

In a sense the Sandinistas do not have a weighty enough legacy to fall back on and the strategies they chose to adopt while 'participating' in democratic government have led them away from organisational and political work among the people. In the last six years almost the only visible opposition action was the protest by university students over the diminishing funds for the universities. The students held a foreign delegation hostage for a short while but were forced to release the hostages without any promises. In many ways it was a futile action given that the Chomorro government was hardly in a position to release larger funds to the universities when even primary funding for education was being cut. It is not of course that all is lost – there is a genuine grass roots support base for the Sandinistas and the social and economic policies that they had attempted to establish. A recent international solidarity meeting drew notable support not only from groups abroad but from the people. But there is need for greater political mobilisation and the Sandinistas have to learn to cope effectively with the different parameters of fighting for liberation within a parliamentary democracy.

TWENTY YEARS AGO

EPW, November 6, 1976

Addressing a press conference in Bombay on October 29, Sanjay Gandhi expressed the view that elections should be put off till the country's economy was stabilised. The next day, on October 30, the Union law minister announced in the Lok Sabha the government's decision to postpone elections and to extend the life of the Lok Sabha by one more year, till March 1978. The normal term of the present Lok Sabha expired in March this year and had already been once extended by one year.

Despite the nearly year-and-a-half long State of Emergency and all that it has meant, there was some expectation that elections might be held early next year. This expectation was based on the calculation that thanks to another good monsoon, the economic situation was still favourable from the ruling party's point of view; at the same time, the opposition parties were still scattered and disorganised. There were, therefore, reasons for the Congress to confidently expect to do well in elections, especially considering all the other advantages that it enjoys in the present situation Another persuasive argument for having the elections soon from the Congress Party's point of view was that the first of the two favourable factors mentioned above might not hold good for much longer.

These calculations, however, ignored one relevant consideration, viz. that while this might be an opportune time to have elections from the standpoint of the Congress Party as a whole, elections at this stage may not suit the convenience of all sections of the party uniformly... The newly emerging forces in the Congress need more time to consolidate their position within the party, especially to gain from footholds in the countryside which continues to be controlled by the established leadership. The latter while paying lip-service to the new emerging forces, has taken care to keep its power bases as intact as possible. On the whole, elections at this stage would have enabled the established leadership to come out of the shell into which it has had to withdraw in the last year-and-a-half and to reassert itself via the selection of party candidates, the mobilising of the party's traditional vote-banks and the rest of the paraphernalia of elections...

Another very relevant consideration is that in the next few months the Constitution may undergo further drastic change. It is well known that there is an influential section in the Congress which holds that the 44th Constitution Amendment Bill has not gone far enough... The movement for further amending the Constitution may well gather momentum as early as at the Gauhati AICC Session later this month. And what is more, next time the amendments may not stop with enlarging the powers of the executive, as the 44th amendment has done, but may basically alter the character of the executive, its relationship with the legislature and even the manner of its election. It is entirely on the cards, therefore, that the next elections, when they are held, will be altogether a different kettle of fish from the five general elections we have had in the past.

CURRENT STATISTICS

EPW Research Foundation

The sources of monetary growth have begun to show some queer trends. The acceleration of monetary growth has been accompanied by slower growth in domestic credit and sizeable increase in foreign exchange accruals. The centre's monetised deficit and the use of *ad hocs* have come down considerably but they have been replaced by other banks' credit to government. Bank credit to the commercial sector has also been very low, suggesting a surfeit of liquidity. These developments are reflected in a decline in short-term interest rates, including yield rates on government paper, and in the annualised forward premia for the US dollar.

Macroeconomic Indicators

Index Numbers of Wholesale Prices (1981-82 = 100)	Weights	Oct 19, 1996	Variation (Per Cent): Point-to-Point: Over Month	Over 12 Months: Latest	Over 12 Months: Previous	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
All Commodities	100.0	317.4	0.1	6.5	8.2	6.0	4.5	5.0	10.4	10.8	7.0
Primary Articles	32.3	330.6	–0.2	7.7	8.5	7.4	5.1	5.4	12.7	11.5	3.0
Food Articles	17.4	374.9	0.3	10.6	6.2	8.8	8.0	9.8	11.9	4.4	5.4
Non-Food Articles	10.1	336.9	–1.0	3.8	12.6	6.1	0.3	–1.9	15.5	24.9	–1.4
Fuel, Power, Light and Lubricants	10.7	330 0	0.0	16.1	1.0	11.8	–0.1	3.7	2.4	13.1	15.2
Manufactured Products	57 0	307.6	0.4	4.1	9.5	4.1	5.0	5 0	10.7	9.9	7.9
Food Products	10.1	307.9	0.9	7.6	5.2	13.7	5.0	–0.7	8.1	12.3	6.8
Food Index (computed)	27.5	350.3	0.5	9.6	5.9	10.3	7.0	6.3	10.6	7.0	5.8
All Commodities (Average Basis) (April 6-October 19, 1996)	100.0	310.2	–	5.6	9.9	5.6	9.1	7.8	10.9	8.3	10.1

Cost of Living Indices	Latest Month	Variation (Per Cent): Point-to-Point: Over Month	Over 12 Months: Latest	Over 12 Months: Previous	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
Industrial Workers (1982=100)	343[8]	1.2	8.9	10.9	7.5	7.5	8.9	9.7	9.9	6.1
Urban Non-Man Emp (1984-85=100)*	263[10]	0.8	9.6*	10.1*	7.8*	8.1*	–	9.9	8.3	6.8
Agri Lab (1986-87=100) @	256[8]	1.6	7.1	14.4	8.0	8.1	7.2	11.1	11.2	0.6

@ Based on linking factor of 5.89 between old and new series (1986-87=100) * For 1995-96/1994-95

Money and Banking (Rs crore)	Oct 11, 1996	Variation: Over Month	Fiscal Year so far: 1996-97	Fiscal Year so far: 1995-96	1995-96	1994-95	1993-94
Money Supply (M_3)	643827	9432 (1.5)	41991 (7.0)	24890 (4.7)	70410 (13.2)	79241 (17.5)	73307 (19.3)
Currency with Public	123204	–33 (0.0)	5043 (4.3)	10129 (10.1)	17480 (17.4)	18698 (22.8)	14170 (20.9)
Deposits with Banks	514678	9655 (1 9)	34343 (7.1)	13559 (3.2)	52973 (12.4)	59685 (16.2)	57925 (18.7)
Net Bank Credit to Govt	276149	–3863 (–1.4)	18739 (7.3)	18025 (8.1)	34991 (15.7)	16328 (7.9)	28855 (16.3)
Bank Credit to Comml Sector	344717	7476 (2.2)	3815 (1.1)	15510 (5.3)	48179 (16.5)	48059 (19.6)	17161 (7.5)
Net Foreign Exchange Assets	85685	2344 (2.8)	8528 (11.1)	2015 (2.6)	–628 (–0 8)	25159 (47.8)	27674 (110.9)
Reserve Money	187305	–891 (–0.5)	–7031 (–3.6)	13546 (8.0)	25054 (14 8)	30611 (22.1)	27892 (25.2)
Net RBI Credit to Centre	125254	–3407 (–2.6)	6486 (5.5)	13842 (14.0)	19855 (20.1)	2130 (2.2)	260 (0.3)
Ad hoc Treasury Bills (Oct 18)	32785	3015	3340	10440	5965	1750	6300
Scheduled Commercial Banks							
Deposits	462722	8869 (2.0)	28903 (6.7)	9937 (2.6)	46961 (12.1)	53629 (16.1)	52144 (18.6)
Advances	253485	6209 (2.5)	–530 (–0.2)	11781 (5.6)	42455 (20.1)	40638 (23.8)	11566 (7.3)
Non-Food Advances	245108	6627 (2 8)	884 (0.4)	11405 (5.7)	44938 (22.5)	37798 (23.4)	8875 (5.8)
Investments	177168	–312 (–0 2)	12386 (7.5)	6618 (4.4)	15529 (10.4)	14171 (10.5)	28641 (26.9)

* Based on March 31 figures after closure of government accounts, except for 1995-96 (full year) and 1996-97 where the banking data relate to March 29, 1996.

Index Numbers of Industrial Production (1980-81=100)	Weights	June 1996	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	Average for Full Fiscal Years: 1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
General Index	100.0	280.0	282.6(8 5)	260.5(14.6)	284.3(12.1)	253.7(9.4)	232.0(6.0)	218 9(2.3)	213.9(0.6)	212.6(8.2)
Mining and Quarrying	11.5	247.9	251.7(3 6)	243.0(15.7)	265 9(6.9)	248.8(7.5)	231.5(3 5)	223.7(0.6)	222.5(0.6)	221.2(4.5)
Manufacturing	77.1	277.8	278 0(10 4)	251.7(14.9)	278.8(13.6)	245.4(9.8)	223.5(6 1)	210.7(2.2)	206.2(–0.8)	207.8(9.0)
Electricity	11.4	327.1	344.5(2 2)	337.0(12.5)	340.3(8 2)	314.6(8 5)	290.0(7 4)	269.9(5.0)	257.0(8.5)	236.8(7.8)

Capital Market	Nov 1, 1996	Month Ago	Year Ago	1996-97 So Far: Trough	1996-97 So Far: Peak	1995-96 So Far: Trough	1995-96 So Far: Peak	End of Fiscal Year: 1995-96	1994-95	1993-94
BSE Sensitive Index (1978-79=100)	3149(–9.7)	3227	3489(–18 2)	3003	4069	2826	3584	3367(3.3)	3261(–13.7)	3779(65.7)
National Index (1983-84=100)	1403(–10.5)	1447	1568(–22.5)	1321	1843	1304	1691	1549(–3.5)	1606(–12.2)	1830(79.2)
BSE-200 (1989-90=100)	310(–10.9)	319	348(–27.0)	298	413	289	385	345 (–6.3)	368(–18.2)	450(92.3)
NSE (Nov 3, 1995=1000)	907	936	–	874	1196	–	–	–	–	–
Skindia GDR Index (Apr 15, 1994=100)	61(–17 3)	61	73(–32.9)	56	90	61	91	79(1.3)	78	–

Foreign Trade	August 1996	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93	1991-92
Exports: Rs crore	9291	47393 (21.5)	39016 (26.5)	106465 (28.8)	82674 (18.5)	69751 (29.9)	53688 (21.9)	44042 (35.3)
US $ mn	2603	13508 (8.8)	12410 (26.2)	31831 (20.9)	26331 (18.4)	22238 (20.0)	18537 (3.8)	17866 (–1.5)
Imports: Rs crore	10370	52449 (15.2)	45511 (37.3)	121647 (35.2)	89971 (23.1)	73101 (15.3)	63375 (32.4)	47851 (10.8)
US $ mn	2905	14950 (3.3)	14476 (37.0)	36370 (26.9)	28654 (22.9)	23306 (6.5)	21882 (12.7)	19411 (–19.4)
Non-POL US $ mn	2219	11266 (–4.7)	11823 (42.3)	28822 (26.8)	22727 (29.5)	17552 (11.2)	15782 (12.3)	14047 (–22.2)
Balance of Trade: Rs crore	–1079	–5057	–6495	–15182	–7297	–3350	–9686	–3809
US $ mn	–302	–1441	–2066	–4539	–2324	–1068	–3345	–1545

Foreign Exchange Reserves (excluding gold)	Oct 25, 1996	Oct 27, 1995	Mar 31, 1996	Variation Over: Month Ago	Year Ago	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
Rs crore	67987	61984	58726	1883	6003	9261	–4044	–7302	18402	27430	5385
US $ mn	19090	18258	17126	599	832	1964	–2558	–3690	5640	8724	731

Money Market Rates of Interest

(per cent per annum)

Weekended Friday / Instruments	October 1996 25(RF)	18	11(RF)	4	September 1996 27(RF)	20	13(RF)	6	August 1996 30(RF)	23	16(RF)	9	2(RF)
Call money rate (weekly weighted average: RBI)	na	9.49	8.94	10.68	10.55	10.43	6.02	5.81	7.64	10.48	7.04	2.84	3.78
Call money rate (Range:weekly)	0.10-11.00	9.00-10.25	0.15-10.25	10.40-10.90	0.25-10.5	10.25-11.00	0.25-`7.25	5.50-7.00	0.25-10.75	9.25-11.00	0.10-11.00	2.00-5 00	0.25-6.25
Treasury Bills:													
91-Day (On tap or ad hoc)	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60
91-Day (RBI Auction): Primary	8.83	10.05	10.09	10.17	10.17	10.13	10.00	9.96	9.96	9.96	9.46	8.46	9.04
Secondary: DFHI (mid-point of bid and offer)	7.37	9.02	9.56	10.11	10.09	9.93	9.81	9.35	8.58	9.34	7.34	5 84	6.95
All SGL trading (Weighted YTM)	8.82	9.28	9.10	9.92	10.22	10.09	9.50	8.19	7.74	9.73	8 45	7.96	8.22
364-Day (RBI Auction) Primary	12.10	*	12.61	*	12.61	*	12.61	*	12.61	*	12.61	*	12.61
Secondary: DFHI (mid-point)	9.01	10.21	10.52	10.89	11.52	11.50	11.45	11.40	11.48	11.46	11.26	11.16	11.20
All SGL trading (Weighted YTM)	12.07	12.38	12.29	12.61	12.57	12.58	12.77	12.60	12.63	12.24	12.27	11.94	10.93
State Govt loans (Coupon rates)	–	–	–	–	–	–	–	–	–	–	13.85 (10 years)	–	–
All SGL trading (Weighted YTM)	13.99	13.91	...	13.71	13.63	13.73	13.91	13.77	13.68	13.86	13 69	13.69	13.68
GOI Securities: Primary Auctions	*	*	13.73 (4 years)	*	*	13.81 (6 years)	*	*	13.85 (10 years)	*	*	*	13 62 (2 years)
Secondary : All SGL trading (Weighted YTM)	13.10	13.32	13.43	13.27	13.31	13 66	13.60	13.30	13.73	12.48	12.18	12.59	13 27
PSU Bonds yield:- Tax free. NSE (traded, weighted)	14.07	13.29	14.36	13.97	13.98	13.25	14.03	14 47	13.77	13 44	13 56	13 53	14 10
NSE (Range: weekly)	13.26-14.37	10.59-14.62	12.63-14.65	13.22-14.23	13.13-14.73	12.2-13.31	13.04-14.66	12.87-14.84	13 42-14.26	13.36-13 62	13.18-13.71	12.47-13.97	13 21-14.35
Taxable: NSE (traded, weighted)	16.47	17.91	17.23	19.46	17.51	...	...	15.84	...	17.08	...	17.36	..
NSE (Range: weekly)	16.22-16.71	16.40-19.91	15.28-17.80	19.46	15.69-18.2	..	...	14.00-18.69	...	17.00-17.15	...	16.40-17.92	...
Commercial Bills: DFHI (Rediscount rate)	13.50	13.50	13.50	13.50	12.50-13.50	12 50	12.50	12 50	12.50-13.00	13.00	13.00	13 00	13 00
CP:Primary market (90 days)	13.00-15.50	13.25-15.50	13.50-15.50	13.00-15.00	13.00-15.50	13 00-15.50	13.00-15.50	13.00-15.50	13.00-15.50	13.00-15.50	13.00-15.50	13.00-15.50	13.00-15.50
Secondary DFHI (Discount rate)	14.50	14.50	14.50	14.50	14.00-14.50	14.00	14.00	`14 00	14.00	14 00	14.00	14.00	14.00
Market/NSE	...	...	11.75	...	..	...	14.00	11.00	...	...	...	...	...
CDs: Primary market	10.50-14.00	11.50-14.00	11.00-16.00	11.25-16.00	10.00-13.00	10.00-13.00	10.00-13.00	10.00-13.00	8.50-11.75	8.50-11.75	10.00-13.00	10.00-13.00	10.00-13.00
Secondary: DFHI (Discount rate)	13.50	13.50	13.50	13.50	12.50-13.50	12.50	12.50	12.50	12.50-13.00	13.00	13.00	13.00	13.00
Inter-corporate deposits (30/90/180 days)	18.50-20.00 (22.50-26.00)	18.50-20.00 (22.50-26.00)	18.50-20.00 (22.50-26.00)	18.50-20.00 (22.50-26.00)	17.00-19.00 (22.00-27.00)	17.00-19.00 (22.00-27.00)	17.00-19.00 (22.00-27.00)	17.00-19.00 (22.00-27.00)	14.00-18.00 (22.00-27.00)	17.00-20.00 (22.00-26.00)	17.00-20.00 (22.00-27.00)	17.00-20.00 (22.00-27.00)	17.00-20.00 (22.00-26.00)
UTI-1964 Units (Week-end secondary market price in rupees)	13.90	14.10	13.90	13.90	13.80	13.80	13.80	13.80	13.60	13.60	13.60	13.60	13.85
Hundi Rate	24.00-30.00	24 00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00
Memorandum Items: (i) Forward premia on the US dollar in the domestic inter-bank market (annualised in per cent per annum) (Weekly average)@													
Spot/Cash	5.77	4.10	5.06	8.12	8.64	8.11	5.43	3.90	6.01	13.92	12.47	–0.19	2.40
One-month	3.76	5.32	5.68	6.37	7.74	8.46	8.45	6.40	8.41	9.69	7.25	4.25	6.44
Three-month	6.21	7.29	7.17	7.12	8.40	9.58	[illegible]	8.91	10.03	10.40	8.80	7.32	8.60
Six-month	7.07	8 53	8.47	8.51	9.49	10.47	10.72	10.32	11.05	11.02	9.99	9.16	9.83
(ii) RBI Reference Rate (Rs/US$)	35.61	35.66	35.65	35.62	35.76	35.72	35.77	35.81	35.68	35.69	35.68	35.76	35.60
(iii) Havala Rate (Rs/US$) (Dubai)	na	na	na	na	39.00	39.00	39.00	39.00	38.80	38.60	39.00	38.80	39.00

... no trading   * no auction   na not available   (–) no floatation   YTM = yield to maturity

RF means Reporting Friday for fortnightly reporting of conditions of banking business and the fortnight serves as the reserve maintenance period for scheduled commercial banks.   @ Based on daily quotations supplied by Mecklai Financial and Commercial Services Ltd, Mumbai.

Notes: (i) Superscript numeral denotes month to which figure relates, e g, superscript 4 stands for April. (ii) Figures in brackets are percentage variations over the period specified or over the comparable period of the previous year.

GSFC

Best Ever Performance

A MAJOR player in the fertiliser industry, Gujarat State Fertilisers Company (GSFC) manufactures fertilisers, petrochemicals, chemicals and industrial products. While fertilisers (mainly phosphatic) contribute 58 per cent of total revenue, petrochemicals (especially caprolactam) contribute 30 per cent and industrial products account for the balance. With the decontrol of phosphatic and potassic fertilisers earlier, all the fertilisers manufactured by the company (except for urea) are out of price control. The Gujarat government holds a 42.2 per cent stake in this diversified company.

The company has come a long way since its inception in 1962 and 1995-96 has been its best year since in terms of turnover, production and profitability. After seeing a lacklustre performance in the previous two years, the company has notched a sharp 79.9 per cent rise in net profit on a 13.7 per cent rise in net sales in 1995-96. Taking into account the fact that last year's net profit of Rs 114.4 crore contained a major chunk (Rs 65 crore) of non-operating profit, the company's performance in 1995-96 is even more impressive. Better realisations from the sale of caprolactam and a tight leash on costs led to a rise in the operating profit margin from 16.4 per cent in 1994-95 to 23.9 per cent in 1995-96 and the net profit margin from 7.7 per cent to 12.2 per cent.

The company's plants are located in Fertilisernagar (Vadodara), Nandesari (Vadodara), Moti Khavdi (Jamnagar) and Kuwarda (Surat). Production of fertilisers touched a new high at 14.98 lakh tonnes as against 13.97 lakh tonnes in the previous year, mainly due to the company's diammonium phosphate (DAP) plant which operated at an average capacity of 180 per cent producing 5.85 lakh tonnes of DAP (1994-95: 5.3 lakh tonnes). The production of caprolactam was also higher at 65,651 tonnes against 54,037 tonnes in the previous year while that of nylon filament yarn increased from 5,552 tonnes to 6,824 tonnes over the same period.

Despite the encouraging performance of the company, a few disturbing trends can be noticed, the first being the sharp rise in imports of 78.7 per cent over the previous year, more so, when one takes into account that imports equalled 52.7 per cent of net sales (1994-95: 33.5 per cent) and the import content in raw material consumed increased from 73.1 per cent to 81.7 per cent. While phosphoric acid accounts for 43.7 per cent of total raw material consumed by the company, benzene accounts for 11.4 per cent and ammonia accounts for another 12.5 per cent. The other major raw materials consumed by the company include acetone, monomer rock phosphate, sulphur, naphtha and ammonia. Exports, on the other hand, were negligible at 4.5 per cent of net sales. Another disturbing feature is the build-up of inventory (up 37.3 per cent) and debtors (up 24.8 per cent) over the same period.

With the setting up of its own co-generation plant, the company has protected itself from one of the major problems faced by most fertiliser companies, i e, power shortage. GSFC is the sole domestic manufacturer of melamine which is used in laminates, paints, chemicals and crockery and caters to approximately 40 per cent of the total demand in the country. In April 1995, the company was forced to cut melamine prices from Rs 52,000 per tonne to Rs 40,000 per tonne to compete with the landed cost of imported material. The user industries still preferred to import melamine through the advance licensing route. With the change in the licensing scheme to a quantity based one, importers now prefer to import other raw material under this scheme. Consequently, the company was once again able to raise prices to around Rs 72,000 per tonne. Further, the company is increasing its capacity from 5000 tonnes to 15,000 tonnes and the additional capacity is expected to go on stream by December 1996/January 1997. The 1,350 tonnes per day ammonia expansion project is also on schedule and is expected to be completed in the third quarter of 1997.

For the first five months of the current year (1996-97), all fertiliser plants of the company have been operating above installed capacity and turnover has touched Rs 697 crore – a rise of 15.8 per cent over the corresponding period last year. This despite a fall of 12.6 per cent in overall phosphatic fertiliser production in the country, during the first four months of 1996-97. Sale of caprolactam during the same period was higher by 24 per cent at 22,774 tonnes. Notwithstanding the company's promising performance, its stock is languishing at Rs 81, discounting its 1995-96 earnings per share (EPS) by a mere 2.6 times. Incidentally, the company's EPS jumped from Rs 17.2 in 1994-95 to Rs 31 in 1995-96 and its book value surged to Rs 143 (1994-95: Rs 116).

RANBAXY LABORATORIES

Farsighted Planning

The largest pharmaceutical company in the country, Ranbaxy Laboratories, has posted a 25.3 per cent increase in net sales for 1995-96. Despite increase in manufacturing and other expenses, the company has managed a 27.6 per cent increase in net profit by keeping tabs on interest costs (down 7.5 per cent). The lower increase in tax provision (up 9.4 per cent) has also benefited its bottomline.

A major part of the company's revenue is presently drawn from the manufacture of generic drugs in both final formulations and bulk form. In addition, the company also manufactures animal healthcare products, diagnostics and laboratory chemicals.

The company's thrust on exports has resulted in its products being available in over 40 international markets. Exports account for 47.9 per cent of net sales and have increased by 34.8 per cent from Rs 296 crore in 1994-95 to Rs 399 crore in 1995-96.

The consistent good performance of the company and its leadership position in the domestic market can be attributed to several factors like well-established brands, strong R and D base, wide distribution market and its strategic global alliance agreements with Eli Lilly of US. R and D expenses increased by 37.6 per cent during the year and, as a percentage of net sales, rose from 3.1 per cent last year to 3.4 per cent. The company's large investments in this area over the years (Rs 28.7 crore in 1995-96) have been channelled towards process development/upgradation for bulk drugs, key intermediates, conventional and novel drug delivery systems, fermentation and biotechnology based products complying with international quality and regulatory norms. The company has promoted Solus Pharmaceuticals for consolidating and expanding its market share of branded dosage forms in the domestic market. The company also plans to maintain its thrust on exports as is evident from its policy of setting up joint ventures in different countries all over the world like Ranbaxy Genpharm (Canada), Ranbaxy (Hong Kong), Ranbaxy (China), Eli Lilly Ranbaxy (India), etc. With a view to focusing on drugs coming off patents in the next decade, the company has acquired Rima Pharmaceuticals (a small Irish generic dosage manufacturer) and Ohm Laboratories of the US. In the domestic market as well, Ranbaxy plans to acquire a 30 per cent stake in the Hyderabad-based Vorin Laboratories through its wholly-owned subsidiary, Vidyut Investments.

The company's earnings per share has increased from Rs 25.6 last year to Rs 31.7 while its book value has jumped from Rs 149 to Rs 183 over the same period. The company's strong fundamentals seem to be well recognised on the stock market with its share price quoting at around Rs 610 – 19.3 times its 1995-96 earnings per share compared to the average price-to-earnings multiple of around 14 for large Indian pharmaceuticals companies.

FINOLEX CABLES

New Joint Ventures

Notwithstanding the increased competition, Finolex Cables, one of the largest players in the jelly-filled telephone cable industry,

(Rs lakh)

Growth and Financial Indicators/ Year Ending	GSFC March 1996	GSFC March 1995	Ranbaxy Labs March 1996	Ranbaxy Labs March 1995	Finolex Cables March 1996	Finolex Cables March 1995
Income/appropriations						
1 Net sales	168517	148242	83449	66596	36458	29111
2 Value of production	179367	138248	86807	68271	37101	29473
3 Other Income	2996	2819	9140	5790	5627	3674
4 *Total income*	182363	141067	95947	74061	42728	33147
5 Raw materials/stores and spares consumed	91460	71720	39131	28853	25072	18995
6 Other manufacturing expenses	21941	21824	11330	8897	1813	1416
7 Remuneration to employees	11292	8403	5749	4321	893	745
8 Other expenses	17445	14791	16916	13766	2824	2587
9 *Operating profit*	40225	24329	22821	18224	12126	9404
10 Interest	13170	13385	4177	4514	2210	1464
11 *Gross profit*	27059	17267	18707	14875	9504	7995
12 Depreciation	6470	5822	2437	1838	1247	919
13 *Profit before tax*	20587	11443	16270	13037	8257	7076
14 Tax provision	0	0	2222	2031	2747	2109
15 *Profit after tax*	20587	11443	14048	11006	5510	4967
16 Dividends	2660	2195	2372	1998	993	888
17 Retained profit	17927	9248	11676	9008	4517	4079
Liabilities/assets						
18 Paid-up capital	6651	6651	4437	4305	1805	1805
19 Reserves and surplus	88519	70592	76656	59998	42874	38357
20 Long-term loans	82564	80784	24965	25658	7031	7135
21 Short-term loans	41489	25026	23318	17952	8976	3594
22 Of which bank borrowings	41489	25026	22100	16949	7176	3594
23 Gross fixed assets	202625	171055	45999	32918	14300	11736
24 Accumulated depreciation	48139	42295	9244	6939	5369	4133
25 Inventories	48272	35155	24394	14946	5577	5724
26 Total assets/liabilities	288909	236798	146532	125069	68656	58675
Miscellaneous items						
27 Excise duty	13406	8994	4628	3233	9056	7659
28 Gross value added	49479	43657	22518	20537	9187	8052
29 Total foreign exchange income	7530	6626	42182	30481	413	123
30 Total foreign exchange outgo	98606	63426	4958	4068	13930	8985
Key financial and performance ratios						
31 Turnover ratio (sales to total assets) (%)	58.53	62.60	58.95	53.25	53.10	49.61
32 Sales to total net assets (%)	76.87	80.98	64.50	61.71	60 08	57.20
33 Gross value added to gross fixed assets (%)	24.42	25 52	48.95	62 39	64.24	63.61
34 Return on investment (gross profit to total assets) (%)	9.40	7 29	12.77	11.89	13.84	13.63
35 Gross profit to sales (gross margin) (%)	16.06	11.65	22 42	22.34	26.07	27.46
36 Operating profit to sales (%)	23.87	16.41	27.35	27.37	33.26	32.30
37 Profit before tax to sales (%)	12.22	7.72	19.50	19.58	22.65	24.31
38 Tax provision to profit before tax (%)	0.00	0.00	13.66	15.58	33.27	29.80
39 Profit after tax to net worth (return on equity) (%)	21.63	14 81	17.32	17.12	12.33	12.37
40 Dividend (%)	40.00	33 00	55.00	50.00	55.00	55.00
41 Earning per share (Rs)	30.95	17.20	31.66	25.57	30.53	27.52
42 Book value per share (Rs)	143.09	116.14	182.77	149.37	247.53	222.50
43 P/E ratio (based on latest and corresponding last year's price)	2.62	9.01	19.27	28.31	5.67	9.96
44 Debt-equity ratio (adjusted for revaluation) (%)	86 75	104.58	30.79	39.90	15.74	17.77
45 Short-term bank borrowings to inventories (%)	85 95	71.19	90.60	113.40	128.67	62.79
46 Sundry creditors to sundry debtors (%)	115 84	119.72	30.87	30.09	17.50	50.48
47 Total remuneration to employees to gross value added (%)	22.82	19.25	25.53	21.04	9.72	9.25
48 Total remuneration to employees to value of production (%)	6.30	6.08	6.62	6.33	2.41	2.53
49 Gross fixed assets formation (%)	18.46	9.56	39.74	49.25	21.85	25.76
50 Growth in inventories (%)	37.31	–23.36	63.21	147.27	–2.57	51.07

has notched a 29 per cent increase in operating profit in 1995-96. The company's raw material costs have increased significantly and imports accounted for 70 per cent of its raw material requirements. Consequently, while net sales improved by 25.2 per cent, the growth in net profit was proportionately lower at 10.9 per cent over the previous year. The higher interest (up 50 per cent), depreciation (up 35.7 per cent) and tax provision (up 30.3 per cent) also led to the lower rise in the company's bottomline.

The company has two plants in Pune, one at Urse which concentrates on the production of jelly-filled telephone cables, and the other at Pimpri which manufactures light duty cables comprising mainly of electrical wires, industrial flexibles, automobile cables and winding wires for submersible pumps. During the year under review, production of jelly-filled telephone cables, which accounted for up to 60 per cent of the company's revenue, increased by 18.5 per cent from 2,950 thousand cubic kilometres (tckm) to 3,495 tckm. With a view to catering to the growing demand, the company had increased its installed capacities for jelly-filled telephone cables from 5,500 tckm to 6,500 tckm and for light duty electrical cables from 520 tckm to 600 tckm.

With the significant growth expected in the power, automobile, construction and other industrial sectors, the company now plans to shift its focus to light duty electrical cables, power cables and communication cables developed in-house. However, jelly-filled telephone cables will continue to provide higher sales volumes. The company has recently launched a low-smoke building cable called Flameguard for the first time in the country to cater to the booming housing industry.

The company's backward integration project for the manufacture of continuous cast copper rods and related downstream copper wire products in collaboration with Essex Group of US is expected to go on stream by March 1997. Finoram Sheets, the company's joint venture in collaboration with Paltough of Israel for the manufacture of PVC rigid sheets, is in an advanced stage of completion. With fibre optic cables threatening to replace jelly-filled telephone cables due to their superior technology, Finolex Cables has decided to enter this field with a joint venture, AT&T Finolex Fibre Optic Cables; the venture is being set up in collaboration with AT&T at Urse in Pune.

The company's book value has increased to a phenomenal Rs 247. Earlier bonus issues by the company were in the years 1987-88 (4:5), 1992-93 (1:1) and 1994-95 (1:1) when its book value stood at Rs 105, Rs 128 and Rs 222, respectively. Currently quoting at Rs 173 on the Bombay Stock Exchange, the scrip is discounted at 5.7 times the 1995-96 earnings.

ASSAM

Hopes of Peace Dashed

Business as Usual despite Political Change

Hiren Gohain

The people of Assam had hoped that the change of governments in Dispur and New Delhi would revive democratic efforts to restore peace through negotiations. But these hopes have been dashed as both the government and ULFA are back to their old routine, to the delight of the shady politician, the smuggler and an assorted group of antisocials.

THE present stalemate in Assam, with both the ULFA and the government of India displaying a marked reluctance to accept a negotiated settlement of the grievances of the extremists, is causing great damage to the economy of the state, ruining prospects of its economic development and plunging the common people into misery and gloom. The government of India balks at a political initiative to solve the problem of militant secessionism in a state considered by many a key link in any strategy for the future of the north-eastern region. Its latest plea for inaction is that the ULFA has turned into a puppet of the ISI and has lost the power of independent decision.

If the ISI is really providing ULFA with arms and materials, as it once did in the case of the Afghan mujahideen, there seems little sense in the ULFA's campaign for large-scale extortions. So far no credible evidence of this alleged ISI control has been produced by the Indian authorities. Indeed, not so long ago the then GOC-in-C of the armed forces in the north-east flatly stated that he had come across no such evidence. Neither the officials of the home department nor the present spokesmen of the army have brought to light any documentary or material evidence in support of their claim. That does not prevent them from issuing statements to the effect that the ISI is training ULFA recruits in camps in Bangladesh in the use of firearms and methods of guerrilla fighting.

Now that Pakistani influence on the government of Bangladesh is on the wane following Sheikh Hasina's election as prime minister, the ISI is unlikely to enjoy the favour of that government. Yet the ULFA seems as adamant in its line of thinking as ever. According to reports emanating from army sources they have now shifted their camps to Bhutan, where the Indian army dare not interfere for fear of an international scandal. No one has said so far that Bhutan too is under ISI influence and, of course, none has the nerve to say that these camps are under the control of RAW!

The ULFA leadership seems equally determined to evade any opportunity for realising their goals through discussions. While popular support for their demand for independence is at best lukewarm, they urge the people to make grimmer sacrifices. Their plea is that they have nothing to negotiate about if it is not complete independence for Assam. They point out with some justice that the earlier talks held in 1990-91 did not discuss secession and independence, with the result that they led to a sell-out by a renegade section of the leadership, as well as creation of the dreaded SULFA, who became the private army of the corrupt Congress(I) leaders. But realising the deep yearning for peace among the common Assamese, they respond by hedging the idea of talks with impossible conditions like holding talks in a third country.

The people of Assam hoped that the change in government both in Dispur and Delhi would renew a democratic approach to politics and help restore normalcy through negotiations. But those hopes were dashed as both the sides resumed their old routine, to the delight of the shady politician, the smuggler, and an assorted group of anti-socials.

Extortion by ULFA

The ULFA has reportedly raised this year Rs 26 crore in Guwahati and Rs 36 crore in the Tinisukia district in the tea garden belt through extortion and terror. Their favourite targets in this campaign are tea gardens, big wholesale merchants from outside the state, the new-rich professional elite, and the corrupt officials. The tea gardens are supposed to sell in local markets 30 per cent of their products at 'reasonable' rates. They never do. Tea prices in Assam are as high as in Delhi and Mumbai. The gardens cook their accounts to evade taxes and encroach on thousands of acres of prime land while there are hordes of landless flood-hit families staying in relief camps. They deny decent wages to their labourers (at present Rs 25 per day, with inadequate rations supplementing them), who also receive no wages for Sundays. The wholesale merchants in collusion with the powerful outsider truck-lobby take advantage of the fact that 80 per cent of the groceries and other consumer goods consumed in the state have to be imported from other states and jack up prices at will, create artificial scarcities and sell sub-standard goods to captive markets, making vast profits. The price level is at least 50 per cent above that of other states. Incidentally, this is the only state where the railway route linking it with other parts of the country has no double track and trains start and arrive five to 24 hours behind schedule. Corrupt officials and contractors have drained the state treasury in the last 10 years of at least Rs 1,000 crore through spurious LOCs and false bills. The CBI seems hesitant to pursue leads as these might expose 'useful' political leaders. Doctors, lawyers and other professionals skim the cream of such fabulous earnings and occasional raids have found lakhs of rupees in cash stacked in their Godrej lockers and almirahs.

The ULFA targets these three or four affluent categories. Extortion seems to be their main activity. The ideological and political implications of which activity for their articulate urban supporters are hardly very reassuring. Kidnapped persons belonging to such categories, if they return alive, vehemently deny having paid huge ransoms and with drawn and haggard features go on to sing praises of the selfless patriotism and polite manners of their abductors. Resistance means a quick death under a hail of bullets as a rich merchant only recently found out at a place called Kharupetia.

Demoralised Police

The police are still demoralised by their justified apprehensions that since both the AGP and the ULFA stem from the same Assam movement and the AGP too has raised a demand for 'self-determination', it might not be safe to go after the ULFA. A hardworking and efficient DIG of the police, Subir Kumar Deb, was recently ambushed near his home for taking a tough line. Armed with vintage World War II weapons and accustomed to supplementing their meagre income with diligent extra-legal pickings, the police force of the state has been unnerved

by the explosion of ethnic violence and extremist militancy. The presence of numerous companies of CRPF and the drastic usurpation of their patch of ground by the army under the barbarous Armed Forces (Special Powers) Act, 1958 have induced in them a certain inferiority complex and passivity. Marginalised by the CRPF and the army as far as big operations go, they seem content to keep order in public rallies addressed by ministers and manning sentry posts in check-gates and VIP residences.

The army, having learnt from the failure of the first anti-terrorist campaign of 1990-91, has managed to recruit large numbers of local informers of the lumpen variety. These informers sometimes have their own personal scores settled by the army by planting false information. The villagers dare not refuse shelter to heavily armed militants, particularly as police help is likely to be tardy and inadequate. The Armed Forces (Special Powers) Act, as interpreted by the Supreme Court, provides that when the army starts an anti-terrorist operation, the local administration and the police are to work in tandem with it. When the army nabs a terrorist it is supposed to hand over the captive immediately to the police. This does not happen often. In fact the general secretary of the ULFA pointed out on October 24 that one 'Biplab Gohain' taken into custody by the army had not been produced before civil authorities in defiance of the order of the Guwahati High Court. The Act provides that even a non-commissioned officer of the army can fire upon and even kill any person who disobeys an order during an operation. The jawans can enter any house and search it and arrest anybody without warrant if 'public order' requires it. And public order usually obliges.

Army Atrocities

During the Congress(I) regime, army atrocities were regarded as the greatest outrages of that government by the people of Assam. The horror of an army attack on a totally innocent wedding procession, killing two veterinary students from Sikkim and a local veterinary surgeon, in a place called Deepila Chowk, an incident where even a government enquiry squarely blamed the army, still remains an unhealed scar in the memory of the people. The Congress(I) ministry was held guilty of complicity in all such incidents and now that a regional party is in power people expected an end to such horrors. To the dismay of even staunch AGP supporters there is no sign of any let-up in such barbarities. To be sure, the ULFA also seems scornful of all laws maintained by the hated 'Indian state' and it obviously regarded the generous early gestures of the AGP government as marks of weakness or softness towards its line. A fusillade of ambushes, firings and kidnappings abruptly ended the bonhomie between the AGP and the ULFA. But the police lacked the will to take on the ULFA and the army was left in absolute control of anti-terrorist operations. The GOC-in-C of the armed forces in the north-east recently expressed unhappiness that while the army is required to use 'maximum force' against the enemy, in dealing with insurgency they are handicapped by their inability to use maximum force. Since both the central and the state governments have ceased to take an active interest in starting a dialogue with the militants, the army is being pushed to the very edge of 'maximum force.' In any case many jawans fail to see the fine distinction between maximum and reasonable force.

Every day local newspapers scream details of torture, molestation, destruction of property and even rape. Some of those reports are exaggerated, but there is no doubt that there have been atrocities. Interrogation in army camps has often led to permanent physical injury, even death, of suspects. No compensation is given to survivors. The high court does provide some much-needed relief to extremists and suspected terrorists, but the dilatory process of law and the law courts' constitutional limitations leave room for gross excesses.

On October 12 the army is alleged to have killed in fake encounters two youth, Dibakar Bora and Golok Saikia, in Jamuguri village of the Sivasagar district. Earlier, on September 24, the army arrested five youth who had reportedly enjoyed a feast together in celebration of a victory in a local football match in the Talap-Megela village of the Tinisukia district and had been fast asleep when the army swooped down upon them on some information provided by a tout. Two of them, Torun Sonowal and Osman Ali, died following night-long torture and the rest were rushed to hospital in a critical condition. Press reporters found Proshanto Goswami, suspected ULFA, detainee, in uncontrollable shivers after three days of torture in an army camp. Matoram Sarma of Morigaon was tortured in an army camp on October 18 by interrogators administering intermittent electric shocks until he was prostrate with agony and exhaustion.

Such activities are bound to give the jawans an illusion of being above the law. They reportedly plunder money and other valuables from households of suspects and misbehave with women. On October 22 a CRPF jawan in civil dress tried to molest a girl visiting a mela on the occasion of the Durga Puja near the Dumuni tea estate. The incensed menfolk of the tea garden surrounded the CRPF camp and attacked it. Obviously it was not the first incident of this kind. The CRPF opened fire to control the mob, killing three labourers of the tea garden.

PASSING THE BUCK

To outraged protests from citizens the state government replies that it is the central government which is the ultimate authority and which does not want to withdraw the army. On the other hand, home minister Indrajit Gupta has assured a delegation of a youth organisation from the state, the AJYCP, that the centre is most unwilling to deploy the army in the Assam countryside and that it is being done under pressure from the state government. Reportedly he even urged the AJYCP to organise protest movements against the deployment of the army in the state against terrorists. This murky situation is made even more intriguing by the prime minister's applause of the army's role in the state during his recent visit. One suspects that between them the state and the central government are not only passing the buck to each other, but also diabolically hoodwinking the people about their real intentions.

This undeclared but protracted war by a government against its own people whom it 'represents' not only induces a dangerous irresponsibility among the security forces and the army, an irresponsibility that the law cannot check nor public opinion restrain, but further encourages and supports rapid erosion of respect for law and constituted authority at all levels of society. The ULFA must share the blame for such a state of affairs with its inhuman interpretation of patriotism and identity. Human rights bodies supported by the ULFA from behind the scene are sectarian organisations that keep out democratic elements of society who do not share the ULFA's aims. Hence their failure to mobilise wide popular support for any movement against army atrocities.

The insurgency in the north-east is a symptom of a deep malaise in the Indian state with its monolithic and authoritarian features. It is totally out of step with fast developing ground realities and its habitual response to situations it cannot understand and control has been violence. Politicians are tolerated only if they compromise with this violence. There is even a possibility that academics and political scientists who question this violence without endorsing extremism may be one day subjected to 'maximum force'.

READY-MADE SOLUTIONS

During his recent week-long visit to the north-east in the third week of October, there was plenty of evidence that the prime minister was content to remain within the ambit of policy and point of view jointly framed by powerful bureaucrats in New Delhi and local politicians with vested interests. Those policies and programmes were based on the assumption that the various tensions in the north-east were primarily a challenge and danger to the behemoth of the centralised Indian state. That is why in Manipur numerous popular democratic organisations including women's groups were denied an opportunity to meet the prime minister, which led to a massive "people's curfew" and total boycott by the people of all functions involving the PM. The PM thus lost an opportunity to acquaint himself with the problems and grievances of the people as experienced by them. More or less the same thing happened in Assam. The PM received lots of memoranda from social and political organisations, but there was hardly any discussion. In fact the PM had appeared to come with solutions in his pocket even before he formed any first-hand idea of the problems.

His pre-conceived solutions included modernisation of an airport in a region poorly served by railways, speeding up of implementation of projects already initiated by previous regimes, Rs 500 crore financial assistance to combat the floods that plague Assam and use of the mighty Brahmaputra to generate power. As a matter of fact an outlay of thousands of crores of rupees will be required to tame the Brahmaputra and one is not sure how helpful it might be to the small and subsistence farmers, the rural majority. In the face of an outcry against army atrocities the PM expressed warm appreciation of the 'peace-keeping' role of the army.

Further a commission was to be formed to go into the entire question of underdevelopment of the region and submit its report, complete with solutions or programmes of action within three months. This promptitude is exhilarating to the brave and disturbing to the thoughtful.

New Economic Policy and Old Trade Unions

A K Roy

The condition of the working class and the trade unions under the New Economic Policy takes us back to the pre-independence days when the working class had to fight simultaneously on two fronts: the local capitalists and the foreign imperialist. It is a time for preparing the working class and their organisations, especially those of the organised sector, not for fighting for new economic benefits, but for providing leadership in the great political battle ahead.

THE New Economic Policy (NEP) has posed a new challenge before the old trade unions of the country. An obviously economic battle has become overnight intensely political. The simple has become complex. The matter was straight previously. The battle was between the employer and his employees over sharing the fruits of labour. The target was the local managements or at best the owners. They were visible, perceptible and near at hand. The interaction was direct. Suddenly they have gone very far and even become illusive, beyond the reach of the ordinary strike. When there is confusion about who the owner is, what action is required will always remain uncertain. Earlier production relations meant those between the employers and the employees, the class position was determined by one's place in the ownership of the means of production. So the class interests of the employers and the employees were mutually opposed.

Now the picture is blurred with the entry of a third party lording it over both. All the economic activities in the country are now being tied with the global economy. This has brought a new factor, international division of labour, into play, having a great bearing on local disputes – putting traditional trade unionism in an awkward position, having no definite say in the matter. The tall master who looked almighty is now reduced to a sly dwarf subserving the interest of some invisible forces deciding everything. With the real authority ruling by remote control, a new weapon is needed for the working class to strike the far-off targets. This calls for suitable political warhead on the economic missiles. In short, the fight against capitalism has changed into that against imperialism eating into the economic sovereignty of the country. This development is the gift of the New Economic Policy.

The problem with contemporary trade unionism, already in an unenviable position, has been further aggravated as, just when the horizon of encounter is expanding, it is getting confined into even narrower premises of sectional economic bargaining reaching nowhere and failing to put up any resistance

to the new onslaught of the international monetary forces and getting further marginalised in the decision-making process of national politics, as evidenced by its total irrelevance in the last Lok Sabha election.

This takes us instantly to the pre-independence days when the working class had to fight simultaneously on two fronts: local capitalists and the foreign imperialist. The working class had contradictions with both. However, the contradiction with British imperialism was always considered by the working class as principal. The workers of Bombay went on strike against the arrest of the nationalist leader Bal Gangadhar Tilak (July 1908) which evoked comments from Lenin from far-off Russia: "In India too, the proletariat has already developed conscious political mass struggle and, that being the case, the Russian-style British regime in India is doomed". However, with the clock of history moving backward as capitalism has returned to Russia, so in India the old imperialism, officially pronounced 'doomed' in 1947, is again slowly returning in a new form spreading economic bondage through the World Bank, the IMF and MNCs as ordained by the NEP. Nevertheless, the difference in the attitude of the working class and the bourgeoisie even in the pre-independence days is worth mentioning. The working class adored the nationalist leaders fighting British imperialism and wanted to have Tilak as its first president in the All-India Trade Union Congress in Bombay in 1920 and, after his sudden death, chose Lala Lajpat Rai, but the emerging Indian bourgeoisie despite having its contradiction with the foreign imperialist power always considered the working class as its main enemy and used to approach the same imperial power for use of force to curb workers when the latter agitated for a better livelihood. The position is ably described by Hooja Bhupendra in his *A Martyr's Note Book* (1994): "The position of the Indian proletariat is, today, extremely critical. It has to bear the onslaught of foreign capitalism on one hand and the treacherous attack of Indian capitalism on the other; the latter is showing a progressive tendency to join the forces with the former."

The position is similar today. The NEP is the offshoot of the grand bourgeois design to put the world into new shackles through 'privatisation', liberalisation and globalisation replacing the old slogans of 'Liberty, Equality and Fraternity' breaking the shackles of feudalism. In place of one East India Company, the door has been opened to so many multinational companies and for hot foreign money to flood the share market. Many Indian companies have already been swallowed up either by merger or raising the foreign equity to 51 per cent. The Indian capitalists have become apprehensive and their fear got expressed through the Bombay Club some time ago. N A Palkhivala who generally invites foreign capital raising both hands struck a note of caution in his speech on 1995-96 Union Budget in Calcutta last year and this year preferred to keep mum. The various scams involving more than 10,000 crore of rupees are the direct result of the deregulation and chaos let loose by the NEP with moral-cultural degradation and religious fundamentalism threatening the very existence of the nation, against the background of menacing international developments, the latest being the triumph of dark forces in Afghanistan encouraged by the US which is lording it over the entire world after the destruction of the Soviet Union.

However, these developments, though alarming both within the country and outside, should not give an impression that the ruling class is contemplating any resistance or that it is thinking of taking any risk. The retreat on Enron, silence on Bailadilla and the other apologetic steps amply prove that the opposition of the Indian capitalists to MNCs and the foreign powers is only a show or at the most intended to exact some concession in economic bargaining. But the hostility to the working class is real and fierce, as manifested

in their denial to yield any new benefit and their all-out effort to withdraw what had already been given earlier. Even the Indian employers are opposed to the concept of recognition of the union by secret ballot and workers' participation in management as endorsed by the law and proposed by the Constitution. So the contradiction between Indian capitalists and their workers is much more real than that between the Indian capitalists and the MNCs. The Indian capitalists would even prefer a shelter in the stomach of the MNCs to being in the company of the workers fighting for economic sovereignty, though that would be in their interest too. As the case stands today, the Indian capitalists have reconciled themselves to their auxiliary role as a junior partner of the MNCs and so have fallen in line with the NEP and the so-called 'swadeshi' movement of the BJP in Maruti cars is gradually on the way out.

What is more, the ordeal before the working class does not end there. Though the forming of the new United Front government at the centre has been celebrated as the great victory of the left and democratic forces of the country leading the trade unions, the budget for 1996-97 shows it is old wine in a new bottle. Rather the problem is made worse when the United Front government comes up with anti-labour laws such as the Employees' Pension Scheme which the trade unions had opposed only the other day. The scheme has now been adopted, something which the earlier Congress government could not do. Now new plans of agitation are being drawn up to fight the 'anti-labour policies' of the new government in which the leaders of the workers are participating. Those who were delighted to see the Congress(I) fragmented before Lok Sabha election are now finding themselves divided in the subsequent political process. Thus both the position today and the one earlier bring home the basic truth that the NEP is not a party phenomenon but a class phenomenon. So chief ministers of all colours fly together to court foreign capital and governments of all compositions make similar budgets as the ruling elites of all parties are having gradually the same class-roots, belonging to the unproductive or parasitic section of society to which the NEP panders and on which the MNCs thrive. The unproductive class (the bourgeoisie plus the middle class) after losing its anti-imperialist character and becoming a collaborator is rolling in consumerism and looking for assured comfort and so is morally unfit and politically unsteady to stand up against the global assault against our economic independence in this unipolar world. The position of the Indian capitalists and rulers is similar to that of the Rajas and Nawabs of the 18th century opting for subsidiary alliances with the British power, thus handing over the country peacefully to it without any serious encounters. To create a psychological atmosphere for the peaceful transfer of sovereignty history is also being reassessed, eulogising the British raj, preaching that 'dependence is golden and independence is a burden', praising Mir Jaffar and the Macaulay cult, spreading English medium schools and the 'mummy daddy TV culture' at home, cutting all emotional ties with the soil. The new residential complex now being built in New Delhi to house World Bank officials is likely to be transformed into the 'Residency' in due course.

While the picture is not yet fully clear nor are all the answers to the questions it has raised ready at hand, one outcome of the NEP digging canals for foreign capital and sailing on them is obvious. It will hurt the working class and has already started hurting it. The position of the working class had never touched such humiliating depths. Today capital is an asset and labour a liability, with an Entry Policy for capital with concessions and exemptions of all sorts and an Exit Policy for workers even though capital is nothing but the product of labour. The Marxist chief minister of West Bengal is touring the world to find capital, while the best capital to build the state lies on his own shelves. That is *Das Capital* of Karl Marx. The fall of the Soviet Union was not because it followed that wisdom but because it diluted it in the last stages and the same fate is awaiting us once Congressmen stop feuding amongst themselves. It is ridiculous to think that a handful of foreign companies will come and cure the economic ills of the country. Rather, they will inject an alien motivation snapping all emotional attachment with the country. If nationalisation has failed to revive some sick units, privatisation has failed in all cases except acting as the scrap-dealer. If the country is privatised it is too likely to be sold as scrap, provided there is a taker. The effect of globalisation would be even more disastrous. Every foreign company that would come would kill at least ten Indian concerns, as happened at the beginning of British raj as narrated both by Dadabhai Naorojee and Karl Marx, thus further aggravating poverty and unemployment while creating isolated pockets of affluence. Capital mostly comes in the form of machines and equipment and the import of every machine means snatching work from the Indian labour engaged in making such machines, thus substituting Indian labour by foreign labour while declaring the country to be labour surplus. Thus in addition to remitting surplus generated as profit, interest, service charges, fees, etc, the entry of foreign capital means entry of unemployment and permanent underdevelopment and dependence, except for developing a small section of the upper strata of the society acting as intermediaries and engaged in scams. So the NEP is not an economic strategy but a political process of ruling by proxy by the international capitalism and to make the process smooth and foolproof the working class is being systematically demoralised and the trade unions are being corrupted with economism.

If religion is the opium to the people, economism and consumerism are the same to the working class. That such an absurd and degrading arrangement as the NEP could come to exist shows that workers are under the spell of that opium. So it is a time to prepare the working class and its trade unions, specially the organised sections, not for fighting for any new economic benefit, but for giving leadership in the great political battle ahead which may be called the Second Independence Struggle for wresting power from the parasitic intermediaries and giving it to the real Indian people. According to Marx, "The first step in the movement by the working class is to raise the proletariat to the position of the ruling class to win the battle for democracy". So only politics should prevail over the country, that is, workers' politics and the country's politics needs the direct intervention of the working class, reminding one of the call at the first session of the AITUC in 1920 in Bombay by Dewan Chamanlal, the general secretary: "Workers of India, the time has come for you to assert your right as the arbiters of our country's destiny. You cannot stand aloof from the streams of national life. Every movement on the political chess-board, every step in the financial and economic arrangements of your country affects you more than it affects any other class. You must be conscious of your responsibilities. You must understand your rights. You must prepare yourself to realise your destiny. A Factory Act or law cannot give you justice. Your salvation lies in the strength of your organisation. Cast all weakness and you will surely tread the path to power and freedom."

State, Class and 'Sena' Nexus

Bathani Tola Massacre

Arvind Sinha
Indu Sinha

The recent Bathani Tola massacre in Bhojpur district of central Bihar again highlights the ongoing suppression of the struggles of the underprivileged by private armies of upper castes in alliance with the middle caste state apparatus.

THE thoroughfares of Patna witnessed a victory procession under the leadership of the CPI(ML) (Liberation) in mid-September after they had got chief minister Laloo Prasad Yadav to agree to their demands over the Bathani Tola-related issues. Under the terms of this agreement, the district magistrate (DM) and the superintendent of police (SP) of Bhojpur district have been transferred and an enquiry has been ordered by the board of revenue, Bihar government into the Bathani Tola massacre. The fasting CPI(ML) leaders including Rameshwar Pandit, MLA from Sahar constituency, under which Bathani Tola falls, broke their fast following the agreement with the chief minister. The leading light of the CPI(ML) (Liberation) Nag Bhushan Pattnaik has also termed this agreement as the 'victory of the democratic forces'. Whether it is a 'victory of the democratic forces' or a 'low-level compromise before the aiders and abetters' of this gory incident – one is compelled to give some thought to this question.

The union home minister Indrajit Gupta on his visit to Bathani Tola said that this carnage had proved the total failure of the police administration in the state. The Bihar director-general of police openly admitted that the police could have averted this brutal incident. This incident, worse than the Mai-Lai incident in Vietnam, in which the American troops had killed innocent Vietnamese peasants, compels one to question the very 'sense of victory' among the CPI(ML) (Liberation) leadership.

Genesis of Massacre

The barbaric massacre of 19 people took place in Bathani Tola hamlet of Badki Khadaon village, of the Sahar block of Bhojpur district. Considered to be the most barbaric carnage of its kind in Bihar, for the first time 13 women and eight children (the youngest of whom was a two-month-old baby) were killed. The victims included only one man. All the victims were gunned down by the well-armed marauders, nearly 150-200 in number, belonging to the Ranveer Sena. The Ranveer Sena's killers converged on the village at about 1 pm in broad daylight, firing indiscriminately; the inhabitants of the village tried to resist with traditional weapons but had to retreat in face of a shower of bullets from every corner. They fled into open fields; their huts were set on fire. The marauders continued with this mayhem for nearly an hour. While a special police camp was only one km away from Bathani Tola and the Sahar police at a distance of 7 kms, the police arrived at the spot by late evening, and the DM and the SP paid their visits by midnight. The village residents alleged a connivance between the Ranveer Sena, local police, and the district administration. It is an open secret that Ranveer Sena has the patronage of BJP and Congress (I), and covert support of the Laloo Prasad government and the ruling Janata Dal. The district administration was informed about 'apprehensions' of such an attack by Ranveer Sena as tension prevailed in the village following conflicts between the landlords and the downtrodden. The district administration had set up a police outpost in response to the tension. In spite of this, carnage took place and the local administration failed in its responsibility to protect the innocent lives.

The victims belonged to dalit, OBC and Muslim communities, mostly poor and marginal peasants. Ranveer Sena is composed of criminal youths drawn from (mainly) bhumihar and rajput castes. Landholders belonging to these two dominant upper castes, while securing their own offspring's future in urban educational institutions, business, and coveted jobs, have drawn upon their poor caste fellows, especially youths, for constituting the Sena. The 'use' of caste feelings for serving class interests is apparent in the composition of Ranveer Sena.

What was it that led to the massacre in Bathani Tola? Was it a communal question, a caste question, a class question, or to add one more dimension, was it a gender question? The last dimension was highlighted by a feminist organisation arguing that the victims of the massacre were women ('nari samhar').

The Badki Khadaon village, of which Bathani Tola is a part, is located about 43 km away from Arab town, the district headquarters of Bhojpur district. The village has nearly 400 households, comprising mostly of dalits, Muslims, and OBCs (Table 1). Most of them are agricultural labourers-cum-poor peasants. Substantial part of the land belongs to the upper castes like bhumihar and rajput. Since 1988, agrarian struggles over minimum wages and 'gairmajarua' (government land) land are being waged. The struggle for minimum wages led to a total strike in 1994, which brought all agricultural operations to a halt. The local administration intervened into the matter in 1995 and cultivation work was resumed after amicably resolving the minimum wage issue. The agrarian tension erupted again on the issue of illegal occupying of more than 100 acres (according to local sources) of gairmajarua land by the landlords. However, according to the block development officer, Sahar, gairmajarua land is in all 25-30 acres, which, he conceded, should have been distributed to the landless. Adding fuel to the fire, some rajput landlords occupied 1.5 acres of Karbala land and also a part of land leading to the Imambada. Such encroachment interfered with the religious celebration of the local Muslims.

Such attitude on part of upper caste landholders is not unusual in Bhojpur. Unusual was the protest by the oppressed

people, who were not ready to accept this semi-feudal socio-economic order which denied them their minimum human, democratic rights. The landless and poor started agitating against the land-grabbers to rescue the Karbala and Imambada land. Not only the Muslims, but all residents of Bathani Tola took up the issue. The occupation of 100 acres gaimajarua land was already on their agenda. The Karbala and Imambada land came as immediate issue.

Notably, the anti-feudal democratic unity of people in Badki Khadaon village was achieved much before the CPI(ML) (Liberation) appeared on the scene. In 1978, when the people elected Mohammed Yunus, an educated leader from the downtrodden as mukhia (village headman) of Dhauchhuhan gram panchayat, under which Badki Khadaon and Bathani Tola come, the bhumihar and rajput landlords found it difficult to digest. The entry of the CPI(ML) (Liberation) a decade later, in 1988, added new muscle and militancy to their ongoing anti-feudal struggle.

Armed clashes started in January this year, leading to the killing of previous mukhia Keshav Singh and his accomplice Santa Singh. The landlords retaliated by killing Mohammed Sultan of Badki Khadaon in April 1996. Terrorised by this killing Naimuddin and four other Muslim families fled from the village and started living in Bathani Tola. Naimuddin had led the protest demonstration against the killing of Mohammed Sultan. Hence, he had become an eyesore of the landlords.

Ranveer Sena was contacted and preparation began for the final onslaught. They thrice tested the preparedness of Bathani Tola residents before the final attack, on July 3-5. The district administration was informed about the nefarious design of Ranveer Sena. The administration set up several police outposts (Table 2) around Bathani Tola. But no action was taken against legally banned Ranveer Sena or their local allies. The political masters and accomplices of Ranveer Sena in the BJP, the Congress(I) and the Janata Dal effectively managed the local administration in their favour. Administrative inaction emboldened Ranveer Sena and the landlords of Badki Khadaon. Their assessment of the situation proved to be correct as they could conduct their worst acts in broad daylight with full impunity and without any interference of the state.

Yet, how come the transfer of DM and SP, and an enquiry by the board of revenue has been hailed by a seasoned revolutionary like Nag Bhushan Pattnaik as the 'victory of the democratic forces'? People know the realities of government enquiries. How can an enquiry by the government serve the purpose, when the government itself is in the dock? The dithering of CPI(ML) (Liberation) is equally surprising. First, it demanded resignation of the Laloo Prasad government; then it demanded dismissal of the DM and SP from their services; and finally, it compromised with the Laloo Prasad government, by hailing the institution of inquiry as a 'victory of the democratic forces'.

Class Interest as Supreme

Interestingly, in spite of BJP's involvement, the local landlords and the Ranveer Sena could not turn the conflict into a communal one. BJP's decade long campaign in Bhojpur for shilanyas, and scores of rath yatras including one led by L K Advani could not break the class solidarity. Though the immediate issue involved the Imambada and Karbala lands, both Hindus and Muslims fought for its rescue under Naxalite ideology and political leadership. This case reveals a different sort of alliance of dalits, OBCs, and Muslims *vis-a-vis* their alliance formed by Janata Dal for electoral politics. It is the suppression of class identity *vis-a-vis* caste, which led the Laloo Prasad government to extend support to the upper caste landlords of Bhojpur and the Ranveer Sena. Significantly, bhumihars are the main component of Ranveer Sena and the Laloo Prasad government is trying tooth and nail to marginalise them as they are at loggerheads with yadavs. Extending support to Ranveer Sena in such a situation is 'unusual', but this supports the above argument. Bathani Tola case also presents the coming together of the BJP, the Congress(I) and the Janata Dal, to suppress the rising upsurge of the downtrodden.

The seeds of 'Naxalism sown in Bhojpur in 1967 assembly elections. The present Sahar MLA Rameshwar Pandit was then a CPM candidate from Sahar and Jagdish master was his election-in-charge. The landlords usually did not allow dalits and OBCs to caste their votes. The people of Ekwari village protested against the booth capturing but could not succeed in exercising their voting rights. The landlords humiliated Jagdish master and scores of others were brutally treated. This suppression led many to quit the CPM and follow the Naxalite way. Naxalism has been spreading in other parts of Bhojpur since then, and people have

Table 1: Household Composition of Badki Khadaon

Dalits		BCs and OBCs	
Castes	No of Families	Castes	No of Families
Rajwar	40	Kahar	40-45
Dusadh	60	Badhai	10-15
Chamar	100	Yadav	50-55
Dhobi	30-35	Koeiri	30-35
		Muslims (Julaha, Dhunia, Chudihar etc)	45

Table 2: Police Outposts around Bathani Tola

Police Outpost	No of Police	Distance from Spot	Direction
Kharaon bujurg	9-12	1.2 km	South-east
Patalpura	12	1.0 km	North-west
Fatehpur	12	1.0 km	South
Sahar police station	Many	7 km	

Table 3: Chronology of Massacres in Bhojpur District

Date	No of Deceased	Village (Massacre Took Place)	P S	Deceased (Belonged to)	Killers	Time
Nov 24, 1989	5 (M)	Danwar bihta	Tarai	Others	IPF	Day
Nov 24, 1989	17 (5F+C+M)	Danwar bihta	Tarai	IPF	Others	Night
June 23, 1991	14 (M)	Deo Sahiyara	Tarari	CPI-ML	Others	Night
Mar 17, 1994	7 (1F+6M)	Narhi	Sahar	CPI-ML	Police	Day
Apr 4, 1995	3 (M)	Khopira	Sandesh	CPI-ML	Ranveer sena	Night
July 25, 1995	6 (M)	Sarathua	Udwantnagar	CPI-ML	Ranveer sena	Night
Aug 3, 1995	6 (M) (Fishermen)	Nirpur	Krishnagarh	CPI-ML	Ranveer + Ganga Sena	Night
Feb 7, 1996	4 (M)	Gandi	Charpokhari	CPI-ML	Ranveer sena	Night
Mar 9, 1996	3 (M)	Fitalpura	Chauri	CPI-ML	Ranveer sena	Night
Apr 22 1996	5 (C)	Nonaur	Sahar	CPI-ML	Ranveer sena	Night
May 4, 1996	9 (M)	Narhi	Sahar	Ranveer sena	CPI-ML	Day
May 19, 1996	3 (2F+1M)	Narhi	Sahar	CPI-ML	Ranveer sena	Day
May 25, 1996	3 (1C+2M)	Yarath	Udwantnagar	CPI-ML	Ranveer sena (Allied)	Day
July 11, 1996	19 (10F+8C+1M) (besides four children traceless)	Bathani (hamlet of Badki Khadaon)	Tola Chauri	CPI-ML	Ranveer sena	Day

Note: F - Female, M - Male, C - Child.

been struggling against the notorious landlords of Bhojpur who understood no *other language but of bullets. In the ensuing* battles nearly 200 people lost their lives before Bathani Tola massacre occurred.

So, it is wrong to consider the ongoing conflict as a war for supremacy between the Naxalites and the Ranveer Sena, as has been projected by the popular media, and perceived by the urban middle class residing in Patna and other places. This explanation conceals that the basic struggle is between the haves and have nots, in which Ranveer Sena is protecting the interests and supremacy of the former whereas Naxalites are fighting for the rights of the latter.

Substantial part of Bhojpur district falls under the Sone canal system. The land is very fertile and was selected for the green revolution package. While the landed gentry, mostly from upper caste groups, greatly benefited from green revolution, the overall condition of the poor and marginal peasants worsened. The landlords and the rich peasants were pretty happy to embrace the benefits of the new technology. However, they continued with the existing semi-feudal relations in production. Needless to say, even the bourgeois democratic rights were not allowed to the peasants. This conflict between the productive forces and the relations of production is the root cause of the ongoing socio-economic conflict for political supremacy between the CPI(ML) and the ruling classes. It is being projected by the bourgeois press, and also being alleged by social and political organisations, that the Naxalite forces are 'aggressive' and are mainly responsible for such massacres. The facts presented below, however, speak otherwise. It is evident from Table 3 that it is Ranveer Sena which committed nine out of 14 massacres, and the frequency of massacres has increased since the formation of Ranveer Sena in 1995.

History of State and Political Parties in Bihar

People in metropolis, especially a section of intellectuals and media persons, talk with great disdain about the happenings in Bihar. The attitude is often contemptuous and approach towards the problem dismissive. People forget the brutality perpetrated in different parts of the country after Babri mosque demolition; they forget what happened in Punjab and continues to happen in the north-east and Jammu and Kashmir. They also seem to forget the Behmai massacre in Uttar Pradesh and the planned rape and brutality meted out to the Uttarakhand processionists on their route to Delhi. Mafiosi and police brutality are a national

phenomenon. Therefore, the approach should be to comprehend and analyse formation of the armed organisations like Ranveer Sena rather than dismissing Bathani Tola incident as an aberration peculiar to Bihari society, not to be found elsewhere. If Bihar presents extreme degeneration of present socio-political set-up, the regeneration expressed in conscious organised revolt of the downtrodden against the existing system is another face of the Bihari social environment.

The collapse of the state and its administrative machinery has resulted in a dual or parallel system in different spheres of Bihari social life. The collapse of the state-run education system has led thousands of private educational institutions to spring up throughout Bihar. Same is the fate of state-run health care system. The prime source of income for thousands of state employed doctors is their private clinics and nursing homes. The state-run hospitals have become death traps. Power supply in the state is equally ad hoc. Water of state-run water supply system is so contaminated, especially during the monsoon that it perpetually becomes a source of water-borne diseases. Even the big police force proves to be totally incapable of providing even the minimum safety and security to the citizens Bihar tops in killings, kidnappings, custodial deaths in the country. In most places police is in connivance with the criminals, gangsters, and mafia.

It is necessary to understand the twin formation of landlord's private senas and people's self-defence guerrilla squads against this background. The landlords have been maintaining armed organisations since British days. The land owning classes utilised their local powers in strengthening their clout in the legal constitutional government and its administrative set-up after independence. This state of affairs was relentlessly opposed by common people and organised left-democratic forces in the state.

The ruling classes got alarmed when people started exercising their voting power against the entrenched feudal forces. The semi-feudal forces could not fight and defeat this current head on; so they opted for sabotaging it in a covert way. They devised ways to manipulate the electoral process through dubious means of bogus voting, booth capturing using armed might. They subverted the land reforms laws in Bihar. An explosive situation emerged in rural Bihar due to rising expectations of the underprivileged, on the one hand, and its suppression by the privileged, on the other. The landlords have been utilising all political options from Congress(I) to BJP amd Janata Dal while the poor peasants have tried options from socialists to CPI to Naxalites. The peasant struggles suffered a setback during emergency when the CPI sided with the Congress (I); CPI's compromising attitude dampened their anti-feudal struggle. Their struggle suffered another blow when the socialists joined Janata Party and abandoned their anti-feudal line. Other left forces were not strong enough in Bihar to make their presence felt. So the poor peasants turned towards the Naxalites in big way after emergency. The memory of the heroic struggle of Musahari in Muzaffarpur district under Naxalite leadership was fresh in their minds.

The Naxalite forces were also trying to develop militant peasant struggle in a new way having learnt from the Naxalbari uprising, which was suppressed due to its adventurist line. So they adopted mass line in the second phase of their struggle after emergency. The arena of struggle in this phase shifted from north Bihar to central Bihar, encircling Patna and Bhojpur districts.

A new development that took place in post-emergency Bihar, and in central Bihar in particular, was the rise of middle castes in socio-economic and political hierarchy. Middle castes were organised in a big way by the Samyukta Socialist Party (SSP). Lohiaite ideology of caste-based reservations in education and government employment was big attraction for them. They shared political power for the first time in 1967 non-Congress government at the state level. It generated lust for more power. They got a bigger opportunity in 1977 in Karpoori Thakur government. The subsequent years saw tremendous consolidation and rise of yadav, kurmi, and koieri castes. This newly emerged power elite was aggressive against the upper castes as well as against dalits and other unprivileged groups. Because of this they came into direct confrontation with the rising movement of landless, poor peasants, mostly dalits, who were mobilised under the Naxalite leadership. It resulted in the infamous Belchhi massacre in 1978, which prodded Indira Gandhi to visit Belchhi in order to woo the dalits. The dalits, however, were not in a mood to relent. In Naxalism they found an ideology and politics which matched their deep-rooted determination to fight for their liberation. Their struggle spread throughout central and south-central Bihar. The extra-constitutional domain of power of the ruling classes was grievously threatened by waves of militant peasant struggles led by different Naxalite groups. Hundreds of landlords had to flee from their strongholds towards the cities in central Bihar. It was only a tactical retreat, not a total defeat. The state and its oppressive machinery was still intact; moreover, there was the political and economic support of the big capitalist class together with the foreign imperialist powers. Conspiracies were hatched by the ruling classes to finish off the rising peasant movements. The result was the formation of state-backed caste-based senas: *Bhumi Sena* (kurmi), Lorik Sena (yadav), Brahmarshi Sena (bhumihar), Kunwar Sena (rajput), etc. Then began the deluge of murder, mayhem and massacres.

Central Bihar witnessed scores of massacres from Pipra onwards; but it was also destined to witness the strength and power of revolutionary egalitarian ideology as well. Those who did not have enough to eat and feed their children succeeded in defeating and liquidating most of these senas, the Bhumi Sena being the most barbarous of them. In frenzy, the ruling classes threw away all norms of civility and constitutional functioning, and the state came out openly against the downtrodden, defending the rural rich. The blatant manifestation of this was Arwal massacre in 1986 by the police itself.

Rise of Ranveer Sena

It is not the first time that Bhojpur is experiencing the formation of senas. The forerunners of Ranveer Sena were Brahmarshi and Kunwar Sena which could not sustain for long. Then the local ruling classes were divided along caste lines. The Mandalisation of politics aggravated the conflict between the upper and the middle castes. But, once the Mandal forces got consolidated on the political map of Bihar the upper caste landlords initiated the process of aligning with the Mandal forces to counter the challenge of the militant poor. This process got momentum after Jwala Singh, a dreaded rajput landlord and manager of Danwar Bihta carnage, joined Janata Dal. This strategy of the ruling classes culminated into the formation of upper caste Ranveer Sena in 1994 with the full backing of the middle castes and local level district administration. It is this formidable alliance which unleashed terror in Bathani Tola to wipe out Naxalism from Bhojpur.

The formation of Ranveer Sena is indicative of class polarisation from above. This is not a caste sena as happened to be the case with other private senas. The class aspect is fairly pronounced in Ranveer Sena's support base and functioning. Bhumihar and rajput caste people have never seen eye to eye and have a history of being mutual foes throughout Bihar. They have now joined hands to form Ranveer Sena. Further, it is the class interest which goaded the ruling stratum of the middle castes to extend support to the sena.

The same trend could be seen in Palamau, Patna, Gaya, Jehanabad, Aurangabad and Nalanda. There existed internecine fights

between the pathan landlords and rajput, bhumihar and brahmin landlords in Palamau. But they forged an alliance under Sunlight Sena (which was formed by the pathans) when their economic interests and socio-political authority was challenged by peasants fighting under Naxalite leadership. An interesting feature of Palamau is the powerful presence of the BJP, and yet it could not tamper with the class interests of brahmin and other upper caste Hindu landlords of Sunlight Sena. By contrast, the poor and backward Muslim groups are united with the poor Hindu caste fellows and dalits under Naxalite leadership.

Similar is the case with the Kisan Sangha of Magadh range in central Bihar, which is an armed organisation composed of criminal elements and their political masters from yadav, kurmi, bhumihar and rajput castes. It was formed allegedly at the behest of ex-union minister for chemicals and fertilisers, Ram Lakhan Singh Yadav. Caste feuds have given way to class collaboration.

IN SELF DEFENCE

Depicting the prevailing situation in Bihar the People's Union for Civil Rights stated in one of its reports, "if someone is alive in Bihar it is because nobody is interested in killing him". This statement is very illustrative. The state has totally abdicated its responsibility of safeguarding the life and liberty of its citizens. This situation coupled with organised assault by forces like Ranveer Sena creates extremely insecure survival conditions for common people. But when common people get organised, they are branded as 'violent', 'lawless' by the state, media, and the ruling politicians. But there exists no law in the state. Incidents like Bathani Tola, fodder scam, and two recent cases of state violence against a woman and a girl-child clearly reveal this reality. The paramilitary forces deployed after every massacre, do nothing to the forces like Ranveer Sena. Instead they harass poor people in the name of wiping out Naxalism. Under search operations whatever country-made small arms they have for their defence are seized.

It was heartening that after Arwal massacre in 1986, for the first time different Naxal groups and other democratic organisations came on a common platform and held a convention on this issue on August 27 in Patna. A cautionary note was sounded that people's movements should beware of two negative trends that very often creep into their functioning. Firstly, gun can solve all problems and hence what is required is sufficient guns to liquidate Ranveer Sena. This line of thought denies common people any role. The other line of thought emanates from traditional left wing politics according to which people's organisations should make much propaganda of the issue exposing thereby the ruling party; mass protests should be held to highlight the issue. Ultimate aim should be to defeat the ruling party at the hustings and grab political power through elections. In this line of action too, people are confined to casting their vote to dislodge the ruling party and bringing the parliamentary left to power. This approach grossly neglects the need to empower people.

What is really needed is empowerment of people through their own mobilisation and struggle. Different organisations and individuals who are actually with the people have to play their role in helping this process. Strength of people's own organisation alone could be a real and genuine solution.

Afghanistan: 'Great Game' Renewed

Gautam Navlakha

Indian foreign policy always perceives regional issues from the perspective of its rivalry with Pakistan. This is evident in official assessments of recent events in Afghanistan, which are obsessed with Pakistan's role in the Taliban victory but silent on US connivance. To gain credibility in the region, India also needs to take a stand on the human rights issues thrown up by the Afghan situation.

TALIBAN takeover of Kabul on September 27 has received wide attention for the new regime's unabashed reactionary policies which are aimed at shackling Afghan women and which will precipitate ethnic conflict. Decrees issued by the Taliban prohibit education for girl children, women from working outside the home (thus hampering the relief operations of the UN and other relief agencies who were helping 2,00,000 people a day in Kabul and looking after more than 1,00,000 orphans), kite-flying and marble playing for children, along with music, dancing, television, films, etc. By prohibiting women from working, the educational system has closed down because the teachers were mostly women. Literacy rates are abominably low: 10 per cent for males and just 1 per cent for women. Hospitals are severely handicapped without nurses. More than 26,000 widows in the city of Kabul who through their labour looked after their families in this war-ravaged city are dependent on handouts and the benevolence of the new rulers. Moreover, deviation from the regimented life which involves a dress code is severely punished. Amnesty International claims that reprisals have been carried out by Taliban against minority groups, especially the Tajiks, and that 1,000 persons have disappeared since they took over Kabul on September 27. Nevertheless, what initially appeared to pave the way for the northward expansion of Taliban has been reversed. Rival factions Jamiat-i-Islami headed by Burhanuddin Rabbani and Jumbish-i-Milli of Rashid Dostum signed a military alliance which brought together two former rivals, Ahmad Shah Masood and Dostum along with Karim Khalili representing Shia Muslims and Jaffar Nauderi the Ismailis, against the Taliban. This see-saw battle for Kabul began with the forces of Abdul Shah Masood recapturing Bagram airport on October 21. This triggered moves to bring about a cease-fire with the UN, OIC, and Pakistan trying to mediate, but they got stuck on the issue of pre-condition. Taliban wanted a swap of prisoners and refused to move out of Kabul. The alliance wanted Taliban to quit Kabul and the city demilitarised under UN peace-keeping forces. The UN security council also passed a resolution which called for foreign countries not to interfere and an end to supply of weapons, and denounced discriminatory policies against women. This resolution, together with the continued recognition of the Rabbani government by the UN, amounts to a major diplomatic setback for Taliban.

As of now, however, the balance of forces has shifted in favour of Dostum, whose 45,000-strong force has remained neutral since 1992 and has only now engaged in fighting the Taliban. This is ironical given that his force is the last remaining vestige of the PDPA that ruled Kabul between 1978-92 with Russian backing! He joined hands with the Mujahideens only towards the end. Also, Taliban is a recent phenomenon, having emerged in 1994 and having played no role in the resistance against the Russian-backed regime. Above all, it is Ahmad Shah Masood, whose force provided the most formidable resistance to the Russian-backed PDPA from within Afghanistan, who today represents the voice of moderation. In the press conference given by Masood after retaking Jab-ul Siraj, he condemned Taliban for being a foreign force and added that the Afghan people do not want Islamic fundamentalism.

It took the US four days to register its disapproval of the killing of Najibullah who was living under UN protection. They instead announced the sending of a high level envoy to Kabul to meet the Taliban leaders to determine the prospects of re-establishing a US presence in Afghanistan. They became ambivalent when the media began highlighting measures announced by Taliban. Once the UN secretary-general decided to denounce Taliban's obnoxious decrees (possibly to embarrass a hostile Clinton administration which opposes his re-election), the US found itself compelled to term its diplomatic initiatives with Taliban leaders as 'contacts'. The US (or UN) is known to use human rights selectively as an instrument of coercive diplomacy. Both the UN and the US have been silent on the denial of voting rights to women in the recently held Kuwaiti elections and on the disenfranchisement of Bedouins after the anti-Iraq war. Also, much before Taliban moved into Kabul they had imposed similar decrees in areas under their control without inviting international opprobrium. The US assessment was that Taliban did not practise anti-US fundamentalism such as Iran does. In the last two years not only did the US maintain diplomatic contacts with Taliban, but it never once tried to press them to move for national reconciliation by starting talks with rival factions. So if now the US claims it is "opposed to the policies of Taliban concerning women", it need not be taken seriously. The US spokesperson also said on October 8 that the US intended to "serve its national interests".

Emergence of Taliban

Fifteen years of struggle against the Soviet army and PDPA followed by the last three years of internecine war between the Mujahideens have destroyed the social fabric of Afghanistan. More than six million became refugees and the entire economy was disrupted. Resistance against the Soviet-backed regime was not united. Mujahideens were split among seven factions which were organised along ethnic and sectarian lines. As long as Russian troops remained, a tenuous unity was maintained. With the withdrawal of Russian troops followed by the collapse of PDPA, a coalition headed by Masood's force took over control of Kabul. This was in keeping with the decisive role of Masood's army, which not only was less dependent on outsiders but unlike other forces did not use Peshawar as its operational base. This triggered off full-scale fighting mainly between Rabbani's Jamiat-i-Islami and the Hezb-i-Islam led by Gulbuddin Hekmatyar, with the latter insisting on Pakhtoon leadership in government. Towards the last months of the Rabbani-Masood government in Kabul, Hekmatyar, sidelined by his Saudi mentors, joined the government as the prime minister, but has since parted company with them. Taliban emerged only in 1994 from the debris of civil war from among millions of refugees living in the camps in Pakistan. The main supporters of Afghan resistance in the 1980s had projected this war as a war in defence of religion, thereby colouring the nature of support it invited. Apart from US arms supplies and relief provided by UN and western agencies, as far as the future was concerned they were left at the mercy of the innumerable 'madrasas' that sprouted due to Saudi Arab munificence, thus ensuring the ideological dominance of the Saudis who are the main bulwark of retrogression. The children of refugees educated in these madrasas go on to form the bulk of the foot soldiers of Taliban. However, it is not their ideology that won them accolade. Taliban was seen as a force that was capable of replacing warring factions. For instance, prior to Taliban's takeover the city of Kabul was divided between factions which demanded their pound of flesh. In addition, the battle for control over Kabul continued causing massive loss of life. In last three years alone, reportedly 30,000-40,000 persons died in Kabul due to internecine fighting. In this sense some reports suggest people saw in Taliban a possibility of an end to the civil war. It is this that accounts for the speed with which they took over 70 per cent of the territory in a little over one year. However,

the emergence of Taliban owed much to the support extended by Pakistan.

According to *Jane's Defence Weekly*, "Pakistan's direct support, direction, planning, command and control have been critical to Taliban's success in overrunning Kabul". It adds, "what we have seen is a remarkable level of sophistication of command and control over a range of fast moving fronts, and it simply defies belief that Afghan mullahs are capable of this sort of planning, organisation and execution". For Pakistan, domestic compulsions forced it to come out in support of a faction that was predominantly Pushtoon speaking. The strong affinity between the Pakhtoons of Pakistan with those in Afghanistan ruled out any settlement that saw the emergence of a non-Pakhtoon dominated coalition. It was feared that such an eventuality would prove dangerous for Pakistan, with the likelihood of a Pakhtoon movement enveloping Pakistan. Its interior minister Nasrullah Babar said as much on October 22, warning that a protracted war would split Afghanistan along ethnic lines and that "we in Pakistan will face the repercussions of a divided Afghanistan in perpetuity". In this sense Pakistan's problems have been compounded. The failure of Gulbuddin Hekmatyar to challenge the coalition formed by Burhanuddin Rabbani was followed by the initial success of Taliban, which now has been stalled by the re-emergence of an alliance between Masood and Dostum. Taliban singled out the force of Masood in the Panjshir valley while offering to talk to Dostum, confident that they could rout the forces of Masood and thereby compel Dostum to accept their terms. This would have effectively paved the way for Afghan unity under Taliban hegemony.

It is not possible for Pakistan to have undertaken this venture without the support of the US, considering that its economic weakness and military dependence make it vulnerable to US arm-twisting. The US did not perceive Taliban as an anti-US force but one that could act as a counterfoil to Iran. Significantly, in the last two years the US did not see any threat in Taliban's espousal of religious militancy. The US assistant secretary of state Robin Raphael in fact went so far as to claim in an interview with BBC that Taliban had "no Pan-Islamic agenda outside Afghanistan". This suggests the high degree of confidence they repose in Taliban. This was reciprocated by them in allowing contacts with US officials (men and women), despite public disavowal of such, in welcoming US aid, and declaring that they wanted "friendly and good relations" with the US. The US did entertain the hope, initially, that Taliban would quickly restore order in Afghanistan, either unite the entire country or exercise hegemony in the event of national reconciliation, which would allow the US to extend its dominance over the direct trade routes to central Asia which comprises one of the richest sources of oil and natural gas sought after by the multinationals, thereby extending US influence over the central Asian republics at the expense of Russia. Insofar as Taliban have pushed the frontline beyond Pakistan bringing it closer to CAR and Iran, there are diplomatic gains to be made for both Pakistan and the US. But these have to be tempered by the alliance formed by the forces of Masood and Dostum backed by Russia, CAR, Iran and India. CIS held a special session to discuss the Taliban takeover of Kabul and announced that if there was any threat to the CAR "they would take adequate measures". Iran condemned the Taliban and lamented they had made "ugly...this beautiful religion". India too has expressed its disquiet, believing trouble could spill over into Kashmir. The main danger now is that if Masood and Dostum's forces manage to command access to the valleys and passes through the Hindukush, which separates the northern provinces from the south, but are unable to push Taliban away from Kabul and Herat, it could result in a military stalemate and hence in a de facto division of Afghanistan.

Indian Response

Since Indian foreign policy perceives the region from the perspective of its rivalry with Pakistan, there is a tendency to assess any evolving situation in the region as being a zero sum game in which every gain for Pakistan is a loss for India. It is interesting to note that both the ministry of foreign affairs (MFA) and the ministry of defence (MOD) in their annual report 1995-96 nowhere refer to the US role in Afghanistan. Its singular obsession with Pakistan emerges as a recurring factor. MFA says that the situation in Afghanistan "continues to be unstable", and goes on to say that it has been "further exacerbated by the interference of Pakistan directly and more so through its creation of Taliban". Taking this a notch higher, MOD says that Taliban "were armed and trained by Pakistan's Inter-Service Intelligence" and goes on to say that "Pakistan's attempts to install a pliable government in Kabul would have serious security implications for us". Significantly, it expresses "serious concern" about where ISI "has been getting funds from" and about the spread of "religious militancy", but refuses to acknowledge any link between US connivance in the matter. This silence is ominous.

The expansion of the US sphere of influence has to be situated in the larger context of its augmented military presence in the Gulf and the Indian Ocean, the acquisition of a new base in Bahrain, the upgrading of Diego Garcia, and evolving military relations with GCC, Pakistan, Sri Lanka, Singapore, Kenya and India. Significantly, whereas Pakistan comes under US Central Command, India's military exercises are undertaken with the Pacific Command. MOD (1995-96) had noted the "US decision in May 1995 to establish the Fifth Fleet under the US Central Command with Bahrain as the homeport", as well as to strengthen its "policy of dual containment of Iraq and Iran" in order to protect "its oil interests" and "wider strategic interests". The last mentioned is not spelled out. In fact, together with MEA (1995-96) it speaks of the Indian defence secretary's visit to the US in September 1995 for the first meeting of the Defence Policy Group (covering security issues) and the Joint Technical Group (co-operation in defence technology), and refers to the May 1995 joint naval exercise. Incidentally, the DPG and JTG were established during the visit of the US defence secretary in January 1995. What these two reports do not say is that the US has shown an interest in using Indian ports for the rest and recreation of its naval forces in the region and using the Indian ship industry for repair and maintenance jobs. It is also seeking to acquire naval and telecommunications facilities from Sri Lanka. This indicates that the US is engaged in bringing a large number of countries under its influence through bilateral tie-ups in which the overall geo-strategic goal of the US is never brought to the forefront. The small news item on October 25 merely states that at the Indo-US DPG meeting the two sides shared their assessment of the Asia-Pacific region. Just two days prior to this, a similar DPG meeting took place between the US and Pakistan in which the two sides discussed the situation in west and central Asia.

Against this background, developments in Afghanistan acquire a regional character outside the immediate environs of Afghanistan. This perception appears to be missing from the official Indian assessment. Seen in this light, the government of India must proceed on the basis of enlightened self-interest. The Indian government's response has to be based on two factors. In the first place, having been silent during the 1980s when the Afghans were fighting against Soviet intervention, it does not enjoy popular credibility. In fact for years when Pakistan carried the burden of providing refuge for millions of Afghans, the GOI harped on the US arming of Pakistan. Unfolding events in Afghanistan were considered from the vantage point of neutralising Pakistani gains. To do the same by way of support for any faction would be to compound that error. It ought to be clear that it is in the interest of Afghanistan to have good relations with Pakistan, just as it is all right for Pakistan to expect to gain from peace in their having borne the brunt of the burden of millions of refugees. Furthermore, the CAR are trying to break out of skewed trade links with Russia and are desirous of developing alternate routes. Having two outlets to the Arabian Sea for international trade would allow them to reduce dependence on any one route. In this sense, good relations with both Iran and Pakistan are critical for CAR. If this be true for CAR then it will be better for the GOI not to get identified with an Afghan faction, because in the event of national reconciliation it could be left high and dry. The chances of this are not as remote as they appear. The fact that the US, the UN, and OIC have stepped up their pressure for a ceasefire and negotiation is indicative of this. Also, it is doubtful if Taliban can be vanquished militarily without an alternative programme for re-uniting and re-building Afghanistan which elicits the support of substantial sections of the Pushtoon-speaking population; Hekmatyar proved to be an exercise in vain.

Does this mean the world should silently acquiesce in the retrogressive project of Taliban? If India is really concerned at this it has to use multilateral forums to apply pressure for an international peace-keeping force to contain the warring factions paving the way for elections. Which obviously means that India will have to shed its claim of sovereign immunity when discussing human right abuses and suppression of universal democratic rights. It also needs reiteration that there is an ideological dimension to the conflict. If the GOI believes that religious militancy is the antithesis of India's secular-democracy, then it can carry conviction only if it is seen as defending a non-discriminatory and non-exclusivist polity untainted by appeasement of communal fascists and apathy towards the rights of women and minorities.

Secondly, the GOI must accept that its preoccupation with Pakistan obscures the larger threat posed by the US. With its weapons of mass destruction and strategic tie-ups in the region, the US is prepared to counter any effort which challenges its imperial interest. It is a moot point whether a country which is trying to lure foreign investors can at the same time freeze military relations which deny US easy access in the region. But opposition to US expansion of its sphere of influence in the neighbourhood is vital for India.

Conversely, it must work towards rapprochement with Pakistan, without which it would be placed at a disadvantage in increasing economic relations with CAR. It would be argued that improving relations with Pakistan is a two-way process. But the policy of reciprocity has been a total failure. Unilateral policy measures, many Pakistani commentators and Indian business organisations argue, would encourage growth of trade and allow Pakistani business to consider India as a credible and reliable source. India's history of trade links with CAR could then be seen as an added incentive. The alternative is to obscure the real sources of threat and exaggerate the mutual hostility between neighbours. It is important to note that the Indian government has begun to show signs of discarding old baggage. For instance, it has accepted the principle of international arbitration in the Mahakali Agreement with Nepal and that Nepal has a first claim on the river water. Again, there is realisation that Bangladesh's claims on a larger share of river water is not unjustified. Research has shown a correlation between low dry season water flow causing drought conditions in upstream Bangladesh districts, which also account for very high share of migration to India. A settlement will also benefit India by the prospect of winning rail and road transit facilities through Bangladesh. Similar recognition is needed *vis-a-vis* Pakistan. The sheer size of our country with its industrial base and military buildup dwarfs Pakistan and therefore reduces the threat it poses to a manageable dimension. Indeed, failure to solve disputes with neighbours and inability to solve democratically internal conflicts have diverted resources and sapped the energy of our people. Were the GOI to change its approach, its credibility in the region will improve and result in expansion of economic relations, whereas right now it is a spectator which tries to make ineffectual gestures from the sidelines.

Kashmir: Self-determination, Communalism and Democratic Rights

K Balagopal

About 25,000 people, by official count, have been killed in Kashmir in the last six years, about two-thirds of them by the Indian armed forces. Kashmiris put the number at 50,000. Yet democratic public opinion in India has remained largely silent, except for occasionally expressing disapproval of army atrocities. Is only killing people in a staged cross-fire a human rights violation? Is the denial of the right of self-determination itself not an act of human rights violation?

NOW that cynical realism believes it has won some sort of a victory in Kashmir, it is time to talk of some principles – principles pertaining not only to the way the rulers of India have been dealing with Kashmir, but also the way progressive and democratic-minded Indians have been responding to Kashmir, and to the problems stemming from the mode of expression of the cause of Kashmiri self-determination. Criticism of the rulers is easy and uncomplicated, at least in principle, if one has no material or ideological interests vested in the matter. The others are less easy, less familiar and less comfortable, but unless we learn to formulate such critiques, the cause of progress and democracy will remain stuck at 1989.

India has quite a sizeable section of intellectuals, activists and political movements committed to the democratic cause. 'Democracy', of course, is not an uncomplicated expression, and if the bourgeois version of it is full of problems, then so is the leftist version of it. Indian democrats, movements and activists, for instance, have reacted strongly to quite a few instances of suppression of the democratic aspirations of different sections of the people, as a matter of democratic principle; but they have remained brutally silent – or else exhibited a low-key response – about others. One need not add that there are a few honourable exceptions. The silence is not due to oversight or preoccupation with more urgent matters. That may be excused. The silence, on the contrary, is studied and deliberate. It is quite frequently even theorised. A close analysis of the reasons proffered for the lack of equal enthusiasm to speak up in each of these cases would reveal a lot of unsuspected problems with what is commonly understood as the democratic worldview by those who believe their understanding is untrammelled by bourgeois or other limitations.

Double Standards

Kashmir is one example. About 25,000 people have been killed in Kashmir in the last six years, by official count, about two-thirds of them by the Indian armed forces. Kashmiris put the number at 50,000. Western human rights organisations and some Indian civil rights groups have documented army atrocities on the Kashmiris in considerable detail. Kashmiris, for their part, have not only documented their suffering but also argued over and over again their case for the exercise of the right of self-determination. Their arguments are difficult to refute except by resorting to cynical political 'realism', which can be given progressive padding by referring to the US machinations in the south Asia. Yet, the democratic public opinion of India has remained largely silent except to occasionally express disapproval of army atrocities. Kashmiris tirelessly ask every human rights activist they meet whether only getting killed in a staged cross-fire is a human rights violation; and whether the denial of the right of self-determination is not in itself an act of human rights violation. The response from much of democratic public opinion in India is a stony silence.

A prominent leftist intellectual, writing in the columns of this journal, has cautioned those who would defend self-determination in Kashmir to realise that what they are defending is religious self-determination. Others, equally well known for their progressive views, have said that the option of plebiscite cannot be allowed to the Kashmiris because it is likely to be exercised communally. In other words, they will be allowed to choose only if they are not going to choose Pakistan, which choice, if made, is axiomatically believed to be on religious or communal (and it is not clear whether the two are the same) grounds. Nobody has as yet said that elections must no longer be held in Maharashtra because the electorate is exhibiting a tendency to make the communal choice of voting for the BJP and Shiv Sena, but the same argument is believed to be valid in the case of Kashmir. If someone wishes to argue that there is a difference between a choice made within the Indian state and the choice of seceding from the Indian state, then one would like to hear some argument that would show that the double standards are justified by this difference.

Is Kashmiri self-determination a religious aspiration? Is it the case that it is necessarily classifiable as either religious or secular? Is all that is religious necessarily communal? Is a religious aspiration to be denied even if it is not communal? Assuming that it is communal, is all that is communal necessarily to be banned in order to get rid of it? How far is the idea that the freedom to choose ought to be and can be denied in order to prevent harmful choices valid? It has a certain validity in the case of physically harmful things such as drugs, but how far can one take it in the realm of ideas and identities without making nonsense of the notion of democracy? In general, is the potential for evil human beings best exorcised – or at all exorcised – by depriving them of their right to make free choices? What, anyway, is the source of evil – such as, for instance, communal divisiveness – in human beings, and how are we to ever overcome it?

A comprehensive discussion of these questions is necessary if democratic public opinion in India is ever to complete a self-critical examination of its attitude towards the 'Kashmir problem', and the dubious doctrinal certitudes that underlie it. What can be attempted here is only a preliminary discussion of it.

Is Kashmiri Identity Religious?

What exactly the Kashmiris mean by 'azaadi' may not be easy to determine. Perhaps all of them do not mean the same thing. In any case, there are too many guns around for a frank expression of views. Moreover, a troubled people soon learn to tell whatever the questioner expects from them, a deviousness that their troubled state teaches them. One thing is however clear, that they have a strong sense of their distinct identity, and 'azaadi' is an emotive expression of that distinctness, even if in concrete political terms it means different things to different people, or nothing more specific than a yearning for a free existence for many. Everywhere in Kashmir, though more in urban than in rural areas, the response to any talk of 'azaadi' is spontaneous and enthusiastic, even in the least propitious circumstances.

Most secular-minded persons in India will immediately ask: is this identity religious? One thing can be said without any hesitation: it is certainly not irreligious. If that puts a question mark on our sympathy for that identity, then there is something wrong with our understanding of popular identities. The identity of a people is what they are in their own eyes, the self-image about which they feel strongly, irrespective of how one interprets it in relation to their material existence. And religion is an integral part

of what most people are in their own eyes. Islam, the way Kashmiri Muslims believe it and practise it, is very much a part of the identity that they feel so strongly for. If irreligious or non-religious identities alone deserve support, then no national self-determination movement can ever be supported, because there is no national identity – at least in the third world – that is totally devoid of a religious dimension. Of course, this raises the question whether such a religious identity can guarantee the security and the cultural freedom of minorities, and what assurances will be given in this regard. The Islam that Kashmiris believe in and practise has in the past been on the whole a syncretic and relatively open system of beliefs and attitudes, which has prevented the Islamic element of the Kashmiri identity from becoming a hindrance to a common Kashmiri identity shared with the Hindus. Communal fanaticism has not been a notable characteristic of the Kashmiri mind. Hopefully, the events of the last six years have not made much difference to this, though embittered emigre pandits do say that things have irrevocably changed now. It is perhaps not an insignificant matter that the Sikhs in Kashmir have not left the valley, and do not seem to feel the kind of discomfort that one would expect in the presence of an alien fundamentalism. How much of the pandits' views is born of distrust, which no doubt finds evidence in the actions of the Pakistan-backed fundamentalist elements in Kashmir, and how much is a realistic appreciation of actual change in the attitudes of the average Kashmiri Muslim is a matter of doubt. There is certainly plenty of hostility towards India in Kashmir, but little hatred of Hindus as such. And even as regards the hostility towards India, one hears people say with surprising regularity that what they hate is India and not Indians. That they feel impelled to express this clarification is perhaps a tribute to their pride in their tolerant and friendly culture.

But the question whether Kashmiri self-determination is religious self-determination seeks specifically to know whether the Kashmiri desire to exercise the right of self-determination harks back to the two-nation theory: that, being mostly Muslims, they must join Pakistan. Whether such a desire must necessarily be branded communal is a legitimate counter-query. And whether – be it communal or not – it is to be met by suppressing the desire of self-determination is another legitimate counter-query. There are certainly some in Kashmir who frankly believe in the two-nation theory as a political faith. The Jamaat-e-Islami of Kashmir holds the view that as a Muslim majority region, Kashmir must be in Pakistan; and so do most of the other (smaller) Islamic organisations. There are even a few who believe in pan-Islamism as an ideology. However, it is worth mentioning the views of People's League leader Shabir Ahmed Shah, one of the most respected of the Hurriat Conference leaders, a cultured and soft spoken man who has a rare concern for ethical propriety in politics. He makes a distinction between what he calls religious fundamentalism (hatred or denigration of other religions), which in his view is wrong, and political fundamentalism (by which he means the inseparability of religion and politics), which in his view is not wrong. He has gone out of his way to address the pandit refugees in Jammu and ask them to come back to the valley, for Kashmir in his view is incomplete without them. The question whether he has an answer to all the difficulties that are likely to arise from such a viewpoint need not detain us now. What is instructive is the clear distinction he makes, and the vocal concern for tolerance and amity between Hindus and Muslims that he – like many Kashmiris – is able to combine, not as a matter of political tactics, but of genuine conviction, with his unflinching faith in the only Truth.

But by all accounts, it appears that for what may be called the average Kashmiri Muslim, Islam means the humane and tolerant tradition of the religion as interpreted by the Kashmiri sufis, whose influence is symbolised by the ziarats that dot the valley, and is as inseparable from the Kashmiri identity as the latter is inseparable from Islam. As a consequence, pan-Islamism or the two-nation theory, it is said, do not attract the Kashmiris much. How true is this opinion? It is interesting that when the Kashmiris are asked whether liberated Kashmir is likely to be a theocracy or a secular democracy, those who identify with the syncretic and humane tradition answer without hesitation that it will be a secular democracy, whereas the fundamentalists reply in evident doubt that 'it is for the people to decide'. A more interesting test of the belief is the ideology being resorted to by the Indian army's surrogates in Kashmir, the sponsored counter-insurgents, all of them criminal gangs, in their bid to attract legitimacy in the valley. Their proclaimed worldview is the synthetic and tolerant culture of what is being called Kashmiriyat. They evidently profess this ideology, not to attract the pandits who are a minuscule minority, nor Indian public opinion, which is happy with any counter-insurgents, howsoever criminal and howsoever oriented ideologically, but the Kashmiri Muslims. Kuka Parrey alias Jamshed Shirazi, the Shahenshah of these army-led criminals, has repeatedly said that his enmity with Pakistan-supported groups such as the Hizb-ul-Mujahideen is because they are out to destroy the tolerant and humane traditions of Kashmir. It is not known how honestly he believes all this, for as the JKLF leader Yasin Malik points out, this man was a pan-Islamic militant before he turned into an agent of the Indian army, but it is instructive that he professes to do so. It is evidently aimed at the common Kashmiri Muslims, and neither the Indian state nor the pandits who are interested only in his guns and not his ideology. And yet, any perceived insult to Islam would enrage the Kashmiris and result in violent popular outbursts, such as were seen twice in the past, in 1963-64 and 1973, much before the rise of militancy.

How does one make sense of all this? Does it mean, somebody will ask in exasperation, that when – and if – it comes to choosing, Kashmiris will not choose Pakistan on grounds of religious affinity? Or that they will? How does one understand their choice if they do? And how if they do not? Progressive-minded people are accustomed to two modes of thought. One, stemming from the Marxist tradition, which has a framework of interpretation that is said to provide answers to all basic social questions, and a strategy of class struggle that is said to provide solutions to all basic social problems, at least in principle. But the answers and solutions provided by that tradition to questions concerning religious and ethnic identities, and indeed to all problems other than those concerning economic class struggles, have proved extremely inadequate. And the second, more recent tradition, stemming from what is usually called the post-modern worldview (if a view that will not unequivocally endow the world with any greater reality than that of a mental construct can be graced with that title) in which questions do not call for answers, but an interrogation of the question, usually to discover that it really means something else. Neither of these traditions will really help us answer these questions, though the Marxist tradition is at least capable of being revised and reformulated to provide a useful guide to thought. Hopefully, at least in the coming century, radical thought will get over this empty choice between dubious certitudes and the certitude of only doubt, and learn to seek real answers to the real problems of real human existence.

Will Kashmiris Choose Pakistan?

In the meanwhile, what about the question we began with: is Kashmiri self-determination religious self-determination? If it comes to choosing, will they choose Pakistan? It is difficult to know for certain. It is quite possible that if both India and Pakistan honourably guarantee not only the existence but also the peaceful development of Kashmir (for it will be a landlocked country if it comes into being), most Kashmiris will prefer an independent Kashmir. But if that guarantee is not forthcoming, as is quite possible, they may well choose Pakistan, not for reasons only of religious affinity but also because it makes social and economic sense. Kashmir was, prior to partition, linked to the rest of the subcontinent through what is today's Pakistan and not through the Banihal pass. Its commercial and social (not merely religious) links were with today's Pakistan.

To travel by road from the Kashmir valley to Pakistan is easy all the year round, whereas to go to India is a tedious journey that leaves you exhausted by the time you reach Jammu, unless you have the money to fly. And that road too is closed for about three months in the year. This 'atut ang', this inseparable organ of India, is unapproachable from India for a quarter of the calendar year, unless one has the money to fly, and this has been so for the last 50 years for which Kashmir has been a – repeatedly proclaimed – 'atut ang' of India. Such is the shame we bear. And in these days when the market is everything, when development is allegedly only market-driven, does it not make perfect economic sense to choose the country with which communication links are palpably better, that too when the region, like Kashmir, is dependent upon export of apples, dry fruit and handicrafts, and the import of tourists? At least our World Bank-driven intellectuals and the Manmohan admirers among our newspaper columnists must accept that for Kashmiris the choice of Pakistan is the most rational one.

But suppose that Kashmiris want to choose Pakistan on the religious ground that they feel happy and fully satisfied in their identity if they live with their co-religionists, what exactly is objectionable about it? Communalism, in the sense of a hateful attitude towards people of other religions, is bad (though what one does about it is another matter). But what exactly is wrong about empathy with one's co-religionists if it does not entail hatred or disparagement of other religions? It may be said that religious identities inevitably lead to communal hatred. That the possibility is there cannot be denied, but there is nothing inevitable about it, and anyway the same danger is present with linguistic and ethnic identities. But human beings find it difficult to live without identities. It would certainly be nice if people did not have a tendency to gather together in religious, ethnic, linguistic groupings, and lived happily together in the most disparate groups. That is not easy for human beings, and is never going to be easy, though it is both necessary and possible to mitigate feelings of prejudice and hatred born of disparate identities. But if self-determination based upon language or ethnicity is not regarded as bad so long as it is not driven by sectarian hatred of others and makes territorial sense, why should not religious self-determination be acceptable on the same footing? One hopes somebody will give some answer other than that Lenin or Stalin said this or that about 'the nationality question'.

Realpolitik, of course, has an answer, which many (Hindu) leftists in India will not feel ashamed to echo. With the Taliban capturing Kabul and the mullahs of Teheran closing in on deviant women, the danger of Islamic fundamentalism becomes a convenient argument for India and Indians to deny freedom to the Kashmiris. Even if the Kashmiri Muslims are themselves not communal, it will be said, the successful secession of Kashmir will strengthen – if only in spirit – the forces of Muslim fundamentalism, which it is everybody's duty in today's world to thwart. Poor Kashmiris, therefore, will have to be sacrificed for the noble cause of what we call secularism and what the US calls democracy. But whether anybody likes it or not, and whether the Kashmiris are sacrificed or not, there is a good likelihood that the first half of the next century will belong to Islamic fundamentalism the way the first half of this century belonged to socialist dogmatism. The reign of Islam will in all likelihood get into a crisis faster than that of Marxism-Leninism, for the wisdom of the mulla backed by the gun of the mujahid has far, far fewer answers to the problems of modern human existence than the formulas of Marxism-Leninism. And then, perhaps – unless some new dogma comes up in the meanwhile, which cannot be ruled out, given the human hunger for absolutes – we can all sit down to think out a viable (that is to say, humanly possible) alternative to the mode of life imposed by this monstrosity called corporate capitalism, sans dogmatic and utopian assumptions about absolutely and exclusively true ideas, endlessly perfectible human beings and paradisical human relations. Why should poor Kashmiris lose in the meanwhile?

Let us get back to two questions raised earlier, and try to discuss them, for they are of importance to progressive theory and practice. One is that Kashmir has seen a very determined militant struggle for 'azaadi' for more than six years with widespread mass support and even sporadic mass participation. And yet nobody is able to say with certainty what exactly the Kashmiris mean when they talk of 'azaadi'. Why is this so? The second is that, assuming that all that has been said above about the Kashmiri ethos is wrong, and that the Kashmiris are driven by rabid fundamentalist hatred of secular/Hindu India to raise the demand for self-determination, as embittered *emigre* pandits say, is the denial of that right in the name of refusing to acknowledge the legitimacy of communalism a justifiable attitude, as many leftists in India seem to think?

Assessing 'What People Think'

The first question is pertinent to many more contexts than just Kashmir. How does one gauge 'what the people really think' in the presence of arms? Armed rebellions are raging all over the world, including India. All of them claim to speak in the name of some oppressed section of the people. It is certainly true that there can be no armed upsurge without some degree of support from the people in whose name it speaks. But how deep is the support? To what extent does the rebellion really represent 'the people's interests' as it claims? How does one get behind the bullets and assess what the alleged real protagonists think about the whole thing?

There is no easy answer to this question, but today it is – and is going to be for a long time to come – a vital question for a democratic attitude towards politics. For armed politics has come to stay. More and more, dissenting politics in the world tends to take to arms, and that creates the problem of understanding what exactly the politics represents. Till now weapons have been seen by radical intellectuals in terms of their efficacy in realising the cherished goal of 'liberation', the one-point terminus of much radical thought. The fact that most intellectuals are struck simultaneously by mortal fear and romantic awe of weapons has made a closer look at armed politics difficult. If we are able to get over the infatuation with the terminal notion of liberation and learn to see progress as a (real, but) much more imperfect and wobbly process, staggered in time and liable to regression, whose ideal summation may be called liberation to satisfy the common human urge for perfection in ideas, then it becomes easy to see armed politics for what it is: a form of politics. And as a form of politics it is liable to be questioned for its democratic content and not just the 'liberative' potential of its aims. What exactly is its relation with the people it claims to represent? How much freedom does it allow those people to direct its activity? What are the mechanisms it has created to ensure that those people can effectively hold it answerable to them? These are today important questions for a democratic understanding of political movements, for the era of peaceful mass movements is rapidly giving way to the era of the rebel's gun, for a variety of reasons, some understandable in the sense that the choice is evidently ineluctable, and some certainly not.

Such questions would not pose a major problem in the case of unarmed movements. When a Medha Patkar or a Sharad Joshi claims to speak on behalf of the evacuees of the Narmada dam or the farmers of Maharashtra, the truth or falsity of the claim is tested easily enough. The people in whose name they claim to speak have no reason to support them or to keep silent if they do not agree with them, and the disagreement will soon be evident. It is different with armed politics. As Abdul Gani, the voluble professor of the Persian language who officiates as the spokesperson of Kashmir's All-Party Hurriat Conference likes to say, "when the guns speak, politics becomes silent". More precisely, the politics of those who carry the gun may or may not become silent, but the people in whose name the gun speaks gradually withdraw into silence. It is partly due to the fear of getting caught (literally and figuratively) in the crossfire, if one draws attention to oneself by talking

too much; more particularly, there is the fear of being branded an 'agent' of the other party, by either party. To add to this there is the rather tricky fact (from the point of assessing 'what the people really want') of the very human tendency to find oneself in agreement with those who have power in their hands. All authority thrives upon this weakness, whether it is the authority of the state or the authority of the rebel's gun. When one views authority in this role as an ideology, as something that commands obedience not by virtue of its truth but by virtue of its power, it should be realised that the ideological trait is based upon this very human weakness. (All ideology, incidentally, draws sustenance from some weakness in the human subject, whether individual or collective, whether purely psychological or social-psychological, a fact that is of far-reaching consequence for rethinking radical theories of human existence and progress.) Armed rebellions, therefore, frequently give the impression of greater public acquiescence in their ideas and deeds than would be the case if they were unarmed. It may be asked: how does one judge this when – or to the extent that – the acquiescence is willing and conscious? The argument here is certainly not that there is something that the people 'really' believe in as against what they think they believe. Any such notion can be quite fascist. But the ideology of power that induces acquiescence reveals its presence when its authority takes a beating – as when the armed rebels are driven back – and the people find themselves (it is not the case that this always happens) doubting their past acquiescence. One is then left wondering what exactly the ideas acquiesced in represented when they were apparently widely accepted.

In this situation, to know what the people want, or to ensure that what they want alone is expressed in their name, is not easy. The former is a problem for analysis, but the latter is a problem as well for democratic politics, the problem of ensuring the accountability of 'people's movements' to the people. It is of course true that 'what the people think' is not a stable thing. It changes as their perception of their strength changes. The fact that there is an armed – and therefore powerful – force functioning on their behalf may well affect their perception of what they want. Such a genuine perception of their strength must be distinguished from the ideology of the gun referred to earlier. The distinction is revealed, as said above, when the gun takes a beating, but not before. The problem is that there is no way of knowing the exact extent to which the silent or vocal assent of the people is an indication of the perception of their strength, and not any of the reasons enumerated earlier. But the fact that what the people want is not a static nor an easily determinable thing, is certainly no excuse for allowing anybody with effective weapon power to claim that their power entitles them to represent the people's aspirations before the world, and to pass off all their deeds as the deeds of the people, taking advantage of the silence that follows armed politics. Practitioners of armed politics frequently resort to such claims, with the added prestige of liberators or mujahids to back them. But their accountability to the people is not something one can leave to their self-discipline, reposing confidence in their commitment as 'liberators' of the 'masses'. Nobody can be trusted so far with power. It is, and must be, a matter of public concern, a matter of concern for the democratic intelligentsia and the human rights movement, which must learn, in these days of armed politics, to be more concerned with the democratic content of political forms of rebel movements than the millennium their weapons promise to bring about. In Kashmir, for instance, one frequently hears the opinion that the outlook of the Kashmiris is more truly represented by the worldview of the militarily badly weakened Jammu and Kashmir Liberation Front (JKLF) than that of the heavily armed Pakistan-backed Hizb-ul-Mujahideen whose ideologues in the All Party Hurriat Conference speak confidently in the name of the Kashmiris. If this is true, such a tragic anomaly must itself be as much a matter of concern to democratic-minded analysts and human rights activists as the denial of Kashmiri aspirations by the Indian state. And now we have tragedy turning into farce with the thoroughly unpopular India-backed counter-insurgent gangs claiming from within the bunkers of the Border Security Force that it is they who represent the true voice of the Kashmiris.

Freedom and Evil

Let us turn to the second question: assuming that a people wish to exercise the right of self-determination on purely communal grounds, is that right then to be denied to them in the interests of progress and democracy? Here the question is not whether freedom is an absolute thing; nothing in this world is or can be absolute. That much the history of the 20th century, the century of grotesque absolutes, teaches us. But the question is: what is the relation between freedom and evil? Is freedom a thing to be necessarily suppressed in order to forestall evil? Or does freedom perhaps have a positive role in overcoming evil? This is a difficult question, but it is likely to be posed again and again as fundamentalism of religious and ethnic varieties sweeps across the world. Progressive-minded persons are likely to be caught on the same side as dictators unless some serious thought is given to the matter.

What is the nature of evil in human social consciousness and behaviour? By evil we here mean oppressive, hateful and other similar traits that set people one against the other. We are not here asking this question with reference to the actions and ideas of those whose position in the social structure implies and requires such evil. We are asking this about the acceptance of and participation in such evil by others, without which it cannot sustain itself. And about other situations where one cannot point to any dominant vested interests that are served by the evil. Why is it that not only those who have a vested interest in perpetuating a particular form of evil but even the 'common people', as they are usually called, become accomplices in it? And are they always only accomplices and never the originators of evil? In particular, what prevents people from overcoming divisive and hate-filled fundamentalism and reaching out to their fellow-creatures in friendship and love, which obviously benefits everyone excepting only those who profit by dividing the people? Why do people who gain nothing materially from it succumb to it?

All the answers that radical theories have are centred on the externality of the sources of evil in popular consciousness. Evil in people's minds is a consequence of successful hegemonic devices put in motion by the oppressors and internalised by the masses because of the pressures of oppression and deprivation; or else it is a skewed perception of reality caused by conditions of oppression and privation. A more sophisticated explanation is that the presence of multiple hierarchies at all levels of society makes possible the reproduction, at all levels, of the divisive and oppressive ideology of power, which basically serves the interests of the ruling classes.

These explanations contain enough truth to make them seem sufficient to those who do not wish to face more uncomfortable questions. The hegemonic efforts, the people's privations and the multiple hierarchies are all equally external to people's consciousness. They act upon it from outside and corrupt it from outside, which is a comforting idea to hold. But in truth, the human mind is not just an empty receptacle that receives the hegemonic ideas of the rulers, nor a bad reflector that somehow converts its sufferings into hatred for the wrong party taking the cue from the motivated codes built into the ruling culture, nor a copying machine that reproduces in thought the ideology of power that stems from the omnipresent structures of dominance. Even if an idea has its roots in hegemonic manipulation or other external conditions, it becomes possible only if there is something it can catch on to in the structure of the recipients' consciousness. We do not take in ideas from outside. Ideas (including ideology, which is often supposed to originate in the interests of others) are shaped in the process of making sense of our existence in the course of interaction with external reality, a process that involves on the side of the subject the whole of the human personality, which is a dynamically shaped product of the interaction between the complex human psychic structure and external conditions

and influences. Unless this edifice of our psychic structure and the process of formation of the personality and of consciousness provide scope for certain patterns of belief and response, attachment to the ideas (or ideology) is not possible, whatever be the external interests they serve, or the external conditions they originate in, if any. It is not enough, therefore, to have a theory of the material basis – or rather, more properly, the external conditions – of evil in human consciousness and behaviour. It is necessary also to have a theory of its human basis. It is not enough to analyse the external interests served by the evil, or the external conditions that underlie it; nor merely to devise strategies for getting rid of them. It is necessary also to understand the internal potential for complicity with such evil in the structure of the human personality, and the moral conditions in which it can be overcome, or at least subdued. Radical theories have shaped plenty of theoretical tools for looking critically at the structures and processes of oppression, but when it comes to looking critically at the oppressed, the only theoretical tool available is the notion of ideology, whether it originates in the hegemonic manipulations of the rulers, or the privation of the oppressed, or the omnipresent multiplicity of the structures of oppression, or some combination of these.

This very basic gap in radical theory can easily lead to an abdication of the responsibility of theoretical effort, in the name of eschewing 'totalising' thought. If by 'totalising' thought is meant any effort to lay down a finite set of interpretative principles that will explain 'everything', it is certainly to be eschewed. That is impossible, and the dogmatic belief that it is possible will in all likelihood lead to totalitarian politics. But the world is an interconnected totality, whether one likes it or not, and it is the responsibility of theory to make as much sense of it as is realistically possible, if any real progress is to be achieved in human affairs. That attempt must not be called 'totalising' in the pejorative sense. To take in the world only as unconnected bits and pieces is to give up the responsibility of thinking theoretically about progress.

It is not proposed to make any attempt here to fill up this theoretical gap, but if it is clear that the human complicity with or capacity for social evil has roots within, as much as the evil may have roots without, it should also be clear that a self-critical attitude is necessary if evil is to be overcome. A merely critical attitude towards the external conditions of existence is not sufficient. And freedom is an essential precondition for a self-critical attitude towards one's inner potential for the bad. Only a free people will be self-critical. In particular, an unfree people, shackled in the name of their attachment to evil, will never look at the inner roots of their attachment to it, but will use their unfreedom to make a virtue of it. Freedom is a necessary precondition for self-criticism, though it runs the risk (which will immediately be pointed out) that it does not always guarantee it. It is because evil in the consciousness of people is always seen to have roots exclusively without, that progressive-minded persons are attracted to the seemingly sensible idea that the best way to exorcise evil is to build walls that will keep it away, restrict the freedom to make recourse to it, and work to alter the material conditions that have given rise to it. Or perhaps the reasoning is more cynical: that people, if they are allowed the freedom, will be fatally attracted by evil, and so the only way to prevent their degeneration is to shackle them until the utopian millennium in which everybody is an angel descends upon the earth. But on the contrary, the freedom to critically overcome one's capacity for and complicity with evil (oppressive and hateful values and structures that set one human being above or against another) can be a positive aid to the process by which human beings will attain whatever perfection is possible for them. If complicity with hateful and oppressive ideas is seen to be not something imposed from outside, but as something that grows in the process of interaction between the inside and the outside, then we will realise that freedom and the responsibility that freedom brings with it will alone make possible the self-critical attitude necessary to overcome it. In general, human beings need to fight not only existing structures of oppression, but also their capacity to produce oppressive structures again and again. Not only the oppressive conditions of life, but also their own complicity in the oppression of each other. To deprive them of freedom is to deprive them of the precondition for a responsible attitude towards what they are and what they do.

All this is not meant to set up freedom as one more panacea to replace other cure-alls, but only to point out that in the difficult task of transformation of human existence, freedom is not just a glorious end that is to be realised at the last (which in pratice means that it is indefinitely postponed), but is also an instrument that aids the process. The necessity of freedom to fight oppression is of course well recognised, but the necessity of freedom for the fight against oneself too needs to be recognised. What is usually called social transformation is also simultaneously human transformation, which is partly at least human self-transformation, and freedom is a necessary condition for it. This still leaves out a lot of problems and does not answer the difficult question: what exactly is the point at which the freedom of action of religious and ethnic fundamentalists should cease in the interests of human civilisation, but at least it will serve to provide an understanding that will distinguish progressive-minded people from dictators when both of them claim to worry equally about the misuse of freedom by fundamentalists.

INDIAN STATE'S 'GAME PLAN'

We can turn at the end to less controversial matters, which are yet matters that have not attracted sufficient response. This is what the Indian state is doing in Kashmir in its effort to bring the Kashmiris to their knees (or their 'senses', as our newspapers say euphemistically). Many will already put this in the past tense, perhaps. By hook or crook Kashmiris, it is already being said, have been subdued and 'brought to their senses'. The swearing in of the Farooq Abdullah government is seen as the turning point.

What will happen in the future cannot be said with certainty. The insurgency will no doubt go on for a long time. Comparisons with Punjab are self-deluding, for the feeling for 'azaadi' is much deeper in Kashmir. The continuance of the insurgency will no doubt be blamed on Pakistan by most Indians, and certainly by our rulers. Pakistan's interest in keeping Kashmir burning is no secret. Its interest is without doubt as mala fide as is India's interest in Kashmir: territory, security, national ego, and everything else except what the Kashmiris desire. But if and to the extent that insurgency keeps raging, the main reason is going to be not Pakistan, but the Kashmiris themselves. The statement repeatedly made by India's politicians and columnists, that the Kashmiris are tired of militancy, is a half-truth. They are sick of the endless sacrifice of lives and blood. They are sick of the seemingly hopeless situation in which they are caught. They are convinced that they are only pawns in a larger battle being fought by the world of Nation States, in which their desire has the least priority for everyone. They had hoped that either Pakistan or the west or the UN would help them achieve their goal: the simple opportunity to decide how they would like to live. But now they are convinced that all these powers are interested in something else. They were half hoping that India, which always speaks in terms of the values of justice and equality, would not be able to stand up to the pressure of the sheer logic of their case and the justice of their arguments. But now they know that India has very brutal answers in its arsenal to all their pleas of justice, and all the impeccable logic of their arguments. Kashmiris may be sick of militancy, but they are much more sick of this betrayal, betrayal of principles by India and betrayal of faith by the other countries. And what they are not sick of is their hope to be free some day.

What we, as Indians, should be engaged in is not the familiar amoral game of political stargazing: what Pakistan will do, what the US will not do, what Farooq Abdullah will achieve, and what New Delhi will not allow to be achieved, etc. We should be more properly concerned with the brutal way in which the present state of affairs has been brought about in Kashmir, if we are, that is, concerned about democracy and democratic

values as our first priority, and are principled enough not to hedge our concern with tactical 'realism', or the kind of opportunism that calls in its aid considerations of 'larger historical issues' or 'the global political context'.

Very brutal suppression, of course, is the answer, and there is no need to recount the numerous instances of fake 'cross-fire' killings or mass massacres of the people by India's brave jawans. But what needs to be explicitly mentioned is the latest and the most cynically efficacious means employed by the Indian state in Kashmir, as part of its 'game plan' (a Kashmiri Congressman's words) to get through with the elections and install an administration of Kashmiris in Srinagar, to show the world that 'normalcy' has returned to the valley. The replacement of General Krishna Rao's administration by an elected Kashmiri government was to be made possible by the augmentation of India's armed forces by armed Kashmiri surrogates: not a statutorily established force of Kashmiri policemen, but unlawful gangs of armed Kashmiri youth, sheltered in or around the ubiquitous bunkers of the armed forces, doing their job of abduction, torture and killing, but only more efficaciously, more knowledgeably and more anonymously, and looting and raping Kashmir withal. Unlike the armed forces, which stay – and need to stay – separate from the local society, and operate in unwieldy and visible groups, these local substitutes can (ideally) live within the local society and act as anonymous individuals. The ideal, of course, is spoilt somewhat by the fact that when they are, as in Kashmir, almost unanimously detested by the public – even by many men of the Congress and National Conference – they cannot live and operate too far away from their uniformed protectors, but nevertheless the advantage of operating through unlicensed local gangs is not slight. More than the physical and logistic advantage is the moral advantage: if Kashmiris kill Kashmiris, some in favour of Pakistan and some in favour of India, then what can poor General Krishna Rao's administration do? Or the army bosses in Srinagar's Badamibagh, for that matter? But what they should not be doing, and are evidently only too plainly doing, is to protect, arm and patronise one gang against another, and openly abet their crimes in the interests of the Indian state and its strategy of not allowing the cession of the prized 'atut ang' at any cost. Nobody in Kashmir makes a secret of the fact that it is this 'game plan' that has made possible the terrorisation of Kashmiri society to an extent sufficient to sap the resolve of the Kashmiris and hold elections successfully.

"This Kuka Parrey's gang are of course a bunch of criminals, but you just watch, it is they who will make elections possible in the valley": this gleeful comment of an understandably bitter pandit on his occasional visit from Jammu back to his half blown-up home in Srinagar, just before parliament polls, is plain truth. One of the gang leaders, a colourful character called Papa Kishtwari alias Ghulam Mohammed Lone, put it with embarrassing innocence when he said to a visiting human rights activist that "it is my gun that will make democracy possible in Kashmir".

To privatise an insurgency by introducing protected surrogate criminal gangs is of course not an idea invented by India's home ministry. 'It is done everywhere', Indians are quick to explain in justification, and usually add (as if they have discovered the piece of wisdom) that 'all is fair in war'. Even some Kashmiris, the kind who are fair even to the enemy, say the same thing, though in tones of frustration and not glee: 'It is done everywhere, and we cannot blame India alone'. Of course it is done everywhere. But presumably, we wish that it should not be done anywhere. If it is unpardonable to militarise a society in the name of tackling an insurgency, then it is unpardonable a hundred-fold to criminalise it.

But a criticism of the rulers that is not accompanied by self-criticism of the rebels is of no use. Where the rebels are not prepared for self-criticism, the criticism will have to come from outside. It is no secret that the Indian Army's Rashtriya Rifles, the counter-insurgency wing that is described by Ghulam Mohammed Magami, the Congress MP from Srinagar, as a "gang of ruffians", which is the premier agency for the recruitment of the Kashmiri counter-insurgent gangs, has found sufficient material to work on precisely because of the methods of operation adopted by the militant groups, and the problems stemming therefrom. The recruits are almost all criminalised former militants of the various groups, or victims or kith and kin of victims of the vengeful acts of violence indulged in by the militant groups. Quite a few are gangs of former militants who have turned to the Indian army for protection, having lost out to a rival group in violent battles for supremacy. It is unlikely that Kashmiris are unaware of the roots that counter-insurgent criminality has in the very methods of operation adopted by the mujahideen. But it is part of the silence that accompanies weapons – added perhaps to a misplaced loyalty that does not allow public criticism of the liberators – that nobody in Kashmir is willing to locate these uncomfortable sources. The Hurriat Conference leaders, otherwise intelligent and rational men, maintain stonily that all the recruits to what in Kashmir are called the renegade gangs were Intelligence plants within the militant movement from the very beginning, and there is therefore no question of criminalisation of militancy to be addressed when complaining about the criminalisation of the state's counter-insurgency strategies. This is, of course, a hopeless abdication of the responsibility to think self-critically.

But then that brings us to the responsibility of Indians, at least those who claim to speak on behalf of humanity and justice, to think self-critically about our own silence in the face of the government's criminality. Forgetting for the moment what is the proper democratic attitude towards the Kashmir issue, the counter-insurgency tactics being adopted by India's rulers should, as a matter of principle, cause serious disquiet. Physical suppression supplemented by manipulation with the help of local opportunists has always been the government of India's only response to the militant separatist struggles in the border states, but the tactics of sponsoring private pro-India gangs of armed local youth is something qualitatively worse. It creates an atmosphere of terror that is palpably more intense than that induced by state lawlessness. The Indian government has been doing this systematically for the past few years in all the border states. In the north-east it has made use of ethnic divisions to evil effect. That the insurgents of the north-east have frequently provided scope for this is a different matter. Everywhere the state has dangled the temptation of safe crime to attract local youth to its counter-insurgency tactics. And there is enough criminality in any human society for these wretched tactics to succeed. The state's pact with them is that so long as they do the required job of attacking the partisans of secession, armed or unarmed, the gun-wielding militants or the intelligentsia, or even human rights activists such as the late Parag Kumar Das of Assam or Jalil Ahmed Andrabi of Kashmir, they are free to indulge in rape, loot and extortion for their private profit. They can wreak vengeance on their personal enemies, maim them or kill them. It does not require much imagination to realise that such state-sponsored armed gangs can soon degenerate into warlords above and beyond the reach of the law. There cannot be a more vicious abuse of the basic norms of lawful governance than this wanton criminalisation of society. To do this to a people merely because they have asked for the right to leave this country is an act of base cruelty. Suppression by the military is a palpable degree less vicious. It injures the people physically but does not destroy the ethical integrity of their society. Small wonder that sensitive Kashmiris declare now that they hate India much more today than they ever did in the past, even in the past six years of reckless violence of the Indian armed forces.

Will all of us speak up at least now and protect a basic principle of democratic governance from further degeneration? Or are we content to let the Kashmiris, Nagas and other people similarly situated hate us for what our rulers have done and are doing to them, satisfied that in the interests of secularism and opposition to US hegemony, their dreams of what they call freedom and what we call secession are being effectively contained?

Mapping the Sites of Contestation

Suhas Palshikar

Political Theories and Social Reconstruction: A Critical Survey of the Literature on India by Thomas Pantham; Sage, New Delhi, 1995; pp 230, Rs 265.

SOME 50 years ago India formally embarked onto the task of defining and building a just society within the parameters of the nation-state. The Constitution was both a starting point and a basis for this exercise. Ever since, different aspects of this exercise – including this basis – have been repeatedly examined. As a result, the theorisation about our past and the present has occupied a central position in political theory. Broadly speaking, three sets of people have participated in this exercise: political actors, non-academic observers and professional social scientists. The role of professional social scientists has been largely peripheral in setting the terms of political discourse. Nonetheless, a growing number of the academic community finds it essential both to relate itself intellectually to the complex social-political processes in the country and to theorise about these processes with a view to formulating alternative images of our collective self.

This has generated considerable literature which belongs to 'political theory'. The book under review has undertaken a survey of works that broadly fall into the area of political theory. The main focus of this book is on the literature published between 1971-92. The time-frame results from the fact that this work is the product of a survey of research undertaken by Pantham for the ICSSR. However, the author has briefly reviewed the state of political theory prior to 1971 and has also covered works not falling in the time-frame whenever clarity and continuity so dictated.

Pantham was assigned the survey of research on the theme, 'Models and Strategies of Change: Problems of Value, Order and Change'. This, then, is not a survey of works on 'political theory' in general. After initial upsurge in behavioural research in the 1960s, the later decades have witnessed renewed interest in theory. Pantham has chosen a specific area of studies in theory: theorisations of Indian social-political reality. While, thus, the scope of the present work is limited in terms of the time-frame and the frame of reference of the theorisation, Pantham has not restricted the review only to works of political scientists. Instead, the present study has reviewed works of economists and historians as well. This strategy has proved to be useful in opening up a broad canvass of theorisations. Incidentally, inclusion of other disciplines also points to the relative limitations of political science although Pantham has generously avoided commenting on this aspect.

The book discusses different approaches to the theorisation of Indian politics. These include the liberal democratic, Marxian, Gandhian and Hindutva approaches. Besides, Pantham has devoted a separate chapter to discuss the formulations of V R Mehta and Rajani Kothari. On the whole, the book adopts the strategy of reporting major works belonging to each of these approaches along with a summary of main criticisms levelled against the same. Only on occasions, Pantham has chosen to add his own critical comments. However, references to his earlier writings help in clarifying his position on various issues under discussion.

Nehruvian Model

Nehru's socialist rhetoric coupled with emphasis on modernisation and mixed economy has attracted considerable attention from scholars. Of late, Nehruvian model has come under criticism from many quarters: the supporters of alternative development as well as the protagonists of liberalisation. The Nehruvian model was firmly entrenched in the Indian Constitution which itself is seen as part of the liberal democratic discourse. However, any critique of Indian Constitution has to take into account two factors: (a) the Indian Constitution visualises a democratic and independent nation-state in the background of imperialism and in the context of neo-imperialism; and (b) the liberal democratic ideology of the Indian Constitution produces space for the democratic struggles for people's rights. In fact, the civil liberties movement in the country could survive mainly because of the availability of the liberal democratic instrument in the form of the Indian Constitution.

Such a contextualisation of the Indian Constitution can help in developing a sound critique of the Nehruvian model. In the global context of neo-imperialism in the post-second world war period, protecting the independence of nation-state was an important task. Nehru devoted the energies of the newly born independent state to this task. He did this not only by way of a political rhetoric but through the idiom of 'modernisation'. Also, the Nehruvian model adopted a non-authoritarian and welfarist strategy. This provided ideological space for democratic struggles as well as for socialist struggles. In other words, Nehru model combined the strengthening of a capitalist state apparatus *and* keeping alive the project of socialist democracy. Much of the recent enthusiasm in debunking the Nehru model seems to be missing this 'paradoxical' nature of the Nehruvian model which has been captured by Sudipta Kaviraj. Pantham appears to be in general agreement with Kaviraj (p 32); he goes a step further and argues that Nehru 'strove to institutionalise' a democratic-socialist state (p 33). This assessment goes against the fact that capitalism grew under the aegis of the Indian state not only after Nehru but during Nehru's time also.

Following Bhiku Parikh, Pantham has argued that the Indian state is a combination of communitarian moralities and liberal democracy. Noting that this aspect has almost completely missed the attention of scholars, Pantham has recommended that this combination needs to be studied in greater detail (pp 171-72). Although Parikh and Pantham appear to be endorsing the communitarian morality, such endorsement needs to be considered in the context of following factors: (1) communitarian morality implies autonomy of communities *vis-a-vis* each other and *vis-a-vis* the nation-state. Thus, communitarian morality, apart from generating questions of identity, leads to justification of an insular existence of communities. (ii) Secondly, the logic of communitarian morality extends justification to the Hindutva discourse where claims of existence of a mega-community form the basis of communalist politics. (iii) And thirdly, communitarian morality may also strengthen the hold of castes over the individuals. It is precisely for these reasons that Ambedkar turned to the 'liberal' logic with a view to breaking the hold of communities over the individual. This concern prompted him to ultimately extend support to a predominantly 'liberal' constitutional instrument.

Pantham has also summarised the works revolving around the role and nature of Indian state. Notable in this regard are the arguments of Rudolph and Rudolph and Atul Kohli (pp 49-55). Although the Rudolphs talk in terms of 'political economy', they are mainly concerned with

the politics of economic development. The state-centred approach of Rudolph and Rudolph characterises Indian politics as non-class, centrist politics and while they suggest that state is the source of 'exploitation and injustice', their approach does not recognise the class-caste character of the Indian state. Kohli, too, is not comfortable with the Marxist approach as it fails to grasp the politics of change. Kohli's emphasis on 'institutionalisation' makes him a supporter of state-autonomy. However, he believes that an autonomous, partially insulated state would, then, engage in reformist intervention. Whether 'partial insulation of state from society' would accentuate domination of entrenched classes over the state remains unanswered in Kohli's scheme. This problem arises due to two factors: (i) an overarching concern with 'order' and governability, and (ii) a scepticism about mobilisation of various social groups ('merely for securing access to state resources').

A richer and more complex set of theorisation has emanated from scholars belonging to various strands of Marxism. Both the richness and complexity stem from the attempt to understand nature of the Indian state on the one hand and to provide theoretical links between India's capitalist development and politics of the dominant classes. Pantham has summarised arguments regarding these issues by a number of economists. But what makes the chapter on Marxist and neo-Marxist theories interesting is a brief summary of neo-Marxist theories in general. This section (pp 63-75) deals with the twin questions of underdevelopment and mode of production in the pre-colonial societies. Among those scholars who have made important departures from orthodox Marxist arguments, Pantham has included Andre Gunder Frank, Wallerstein, Laclau, Emmanuel, Samir Amin, Hamza Alvi and Pranab Bardhan.

Pantham's survey of Marxist theories of Indian politics includes a brief section on the question of transition to socialism. Following the argument of K N Raj regarding 'intermediate regime', Pantham puts forth the thesis that (a) the dominant classes depend on support from 'intermediate' classes, and (b) these intermediate classes "can still try to usher in a mass-based polity" (p 78). There have been very few systematic studies on the political inclinations of the intermediate classes. It has been argued that sections of 'intermediate classes' have become partners in the ruling alliance[1] and Pantham himself accepts that the intermediate classes have, since independence, supported the dominant classes (p 77). In fact, the intermediate classes not only support but perform a legitimising-hegemonising role for the dominant classes. This leaves very little room for optimism as far as the role of a whole range of middle classes is concerned.

Pantham finds particular merit in the work of Arun Bose (*India's Social Crisis: An Essay on Capitalism, Socialism, Individualism and Indian Civilisation*, 1989). He concurs with Kaviraj that Bose's analysis opens up new possibilities for understanding Indian social reality in a Marxist perspective. Bose takes into account the nation-specific cultural specificities as legitimate aspects of the global capitalist system. This allows Bose to turn attention to the specificity in Indian society, viz, caste. Bose attempts to integrate political economy with Dumont's theory. This opens up the possibility of understanding the specific nature of India's dominant classes. The question of domination has to be understood in the context of hierarchical caste structure of Indian society. Pantham believes that through a critique of Bose's argument, it is possible to arrive at fresh formulations of class/caste domination and new paradigms of civil society/state interaction in the Indian context (pp 177-78).

Probably the most important development within Marxist theory has been the formulation of 'subaltern studies'. However, this school has had only a moderate impact on studies belonging to the formal discipline of political science. In view of this, Pantham has chosen to give a detailed summary of the main formulations and criticisms of subaltern studies. This includes the works of Partha Chatterjee, Ranjit Guha and Gayatri Chakravorty Spivak and critical commentaries by Dipankar Gupta, Rosalind O'hanlon and Mridula Mukherjee (pp 82-100). The emergence of the subaltern school has given rise to two major debates which, if continued, will undeniably enrich political theory in India. Firstly, the nature of India's freedom struggle has been debated with renewed vigour. The validity of the 'nation-state' representing the entire political arena has now been challenged. Scholars belonging to the subaltern school have raised questions about the class character of the national movement.

On the other hand, they have also questioned the role of the Gandhian movement in Indian politics. Gandhi is seen as perpetrator of the 'passive revolution'. In fact, this assessment of Gandhi originates in the subaltern understanding of the nationalist struggle as arrogating subaltern aspirations and subsuming them under the discourse of the 'nation-state'. While the subaltern studies have made an important contribution by trying to integrate Gramscian ideas into their thinking, Pantham has been particularly critical of the essentialising tendency and a 'negative assessment' of Gandhi. Failure to creatively understand the Gandhian project has, indeed, been a major limitation of the subaltern studies. Pantham underscores the need for a 'critical-creative' interrelation between Marxian and Gandhian concerns (p 179) in order to avoid 'mere substitution...within the same sign-system' (p 101).

Gandhian thought, thus, provides the basis for debate over the role and nature of class-politics, the critique of capitalism and interaction between social reconstruction and tradition. Gandhi's discourse correctly understood the link between imperialism and the capitalist frame of values. Therefore, it tries to bring together the two types of struggles – the swarajist (anti-imperialist) and the sarvoday (social reconstructionist) struggles. This led Gandhi to speak in terms of the 'people' instead of classes. Also, Gandhi was concerned not only with the material contradictions in civil society but moral contradictions (in terms of public/private), too. The main impediment, however, in creatively confronting the Gandhian moment, has been Gandhi's position *vis-a-vis* tradition. Liberals and Marxists alike have been uncomfortable with Gandhi on this score. Gandhi has either been branded as a traditionalist, supporting 'peasant-communal moralism' or hailed as a post-modernist.

In this context, the present volume summarises the works of Parikh, Pantham and Ashis Nandy. Nandy has argued that Gandhi was a critical-traditionalist in that he claimed to uphold traditions but simultaneously was prepared to reject traditions. Gandhi was also not averse to incorporating elements of modernity. In his own works, spanning almost a decade between 1983 and 1992, Pantham has been arguing that Gandhi's thinking goes beyond liberal-utilitarian framework; Gandhi's satyagraha extends the principle of morality to the public/political domain and Gandhi attempted to go beyond dichotomisation between the self and other. Pantham's preoccupation with situating Gandhi in Habermasian discourse on the one hand and in post-relativist framework on the other somewhat obscures critical/emancipatory context of the Gandhian discourse.

In the background of liberal, Marxian and Gandhian theorisations of Indian politics, Pantham reviews the contributions of V R Mehta and Rajani Kothari. Mehta seems to take inspiration mainly from Gandhi while elaborating the argument of Integral Pluralism. However, Pantham notes that Mehta's 'modified version' of Gandhism is not free from orthodox western liberal-democratic framework (pp 149-50 and 182-83). Also, in spite of being inspired by Gandhi, Mehta's integral pluralism does not

grapple with the issues of social action for transformation and capitalist social relations. Rajani Kothari's writings, both in the pre-emergency period and later works, have been extensively summarised by Pantham along with major criticisms of Kothari's works (pp 150-67 and 184-86). It is noted that Kothari's early writings employ the modernisation framework. He was among the few political scientists who appreciated the two-way interaction between modernity and tradition. Kothari also sympathetically evaluated the consensual Congress system during the Nehru era. This evaluation stemmed from a search for viable national-state model of democratic development and also from Kothari's assessment that political leadership was capable of acting autonomously since it was comparatively free from social-economic elites. This evaluation invited criticisms from Bhambri and Ashok Mitra among others. In the post-emergency period, Kothari shifted the emphasis from democratic development and autonomous political institutions to mass struggles and the issue of decentralisation. He now perceives the development-oriented task of nation-building as violative of plurality and freedom. This has led him to formulate a theoretical framework of 'alternative democracy'. This framework has been faulted by Satyamurthy and Mohanty for a lack of 'proper' class analysis. However, it needs to be emphasised that in Kothari's recent works he proceeds with class analysis of the character of state and state-oriented development and turns to the Gandhian discourse for constructing an alternative vision of democracy. This positioning of his theory allows Kothari to take an anti-capitalist, anti-authoritarian and anti-communalist stand. However, his post-emergency writings have become increasingly sceptical of the nation-state and led him to posit radical potential mainly in the scattered, non-party 'peoples' movements' – a position liable to the charge of romanticisation; both because it implies peoples' movements as authentic representations of popular struggles and aspirations and also because this position holds that such non-party movements can effectively confront the state.

ISSUE OF HINDUTVA

The last two decades have witnessed a rise in Hindu communalist politics and a shrill rhetoric based on Hindutva. The contemporary formulation of Hindutva attempts to integrate the arguments of Golwalkar, Savarkar and Deen Dayal Upadhyay. Pantham has briefly summarised the main arguments of these three ideologues of Hindutva (pp 127-31) before turning to the discussion of contemporary ideology of Hindutva. He makes mention of Gandhian socialism and the arguments of Swapan Dasgupta. The latter relies mainly on the argument of majoritarianism; just as Girilal Jain did in his last years. The contemporary Hindutva discourse deceives a student of political ideology because it relies on different arguments at different junctures depending upon political expediency. Besides, the contemporary Hindutva discourse has a hidden text of a communal understanding of the self and of our history. This hidden text operates in middle-class drawing rooms and kitchens; constantly breeding suspicion, hatred and a vacuous nationalism. In academia it is represented by projects of rewriting 'our' history, glorifying violence for 'good' cause and espousal of Hindu metaphysics. In view of this nature of Hindutva discourse, Pantham has summarised, at length, the criticisms of contemporary Hindutva ideology (pp 138-45). However, he is aware of more serious issues involved in being able to critique and counter Hindu communalism. These are: meaning and nature of secularism, religiosity, nature of the liberal-secular state; Hindu state and (mis)appropriation of nationalist as well as Gandhian legacy. It will not be sufficient to employ the capitalist logic of 'secularism' alone, for countering Hindutva nor will it suffice to counter communalism merely by upholding the cause of minority. In fact, Hindutva ideologues would be too at ease if a critique of Hindutva is pitched merely within the 'secularist' framework. As Pantham has hinted, a critique of Hindutva and Hindu communalism can squarely base itself in Gandhian ideas.

The present volume, thus, identifies the main locations of theoretical confrontation: liberal, Marxian, Gandhian and Hindutva schools of thought. Since this volume does not deal with abstract theorisations, the theoretical standpoints surveyed in this volume include not only criticisms but emotive polemics, too. Such a survey, by its very nature, is bound to be inconclusive. Pantham has given only a very brief and sketchy outline of strengths and weaknesses of different sets of theorisation. Readers would have benefited immensely if the author had chosen to systematically spell out his assessment of the theorisations of Indian social reality.

From Pantham's observations following issues stand out as major areas of contestation which require the attention of scholars: nature of Indian state, the stage of capitalist development, the issue of the grand narrative of development and the relationship between democracy and popular struggles. The Gandhian, Hindutva and Subaltern schools will doubtless provide ideological vigour to scholarship. But at the same time, contemporary scholarship has had to take note of Ambedkar's powerful critique of Hindu religion and society. The last two decades have seen insightful and many times controversial studies on thinkers for whom the caste factor provides the foundational paradigm of social analysis. Works on Phuley, Ambedkar as also Periyar have been rightfully claiming a place onto the intellectual map. One wishes that Pantham might have noted this development at least in the concluding chapter; because, this development has made theoretical contestation both, more fierce and more people-oriented. The formulations by Phuley and Ambedkar have brought to the forefront of theory issues of ideology of Hindutva and caste-based domination. It is not sufficient to discover the material basis of caste-exploitation. Caste system survives also because of the justification implied in the notion of caste. Following Phuley-Ambedkar, it is now possible to employ caste-terms ('shudra-dwija'/brahmanic-non-brahmanic) as analytical categories to understand social reality. Also, this school of thinking has made theory more sensitive to the issue of the hegemonising role of tradition. This awareness should help in developing a non-orientalist critique of tradition. Finally, the power-structure in Indian polity can be more meaningfully understood by integrating the valuable insights of Phuley-Ambedkar with the other theories in search of the emancipatory project.

Pantham's survey of Indian political theorisation begins with a discussion of the 'swaraj-sarvoday discourse of our freedom movement'. Phuley anticipates this discourse with his criticism of the Indian National Congress. Both Phuley and Ambedkar raise the pertinent issue: whose nation – freedom for whom? In this sense, they, rather than Radhakrishnan, become the eminent exponents of 'swaraj-sarvoday' discourse.

There is one more reason why Phuley-Ambedkar along with Marxist and Gandhian thought need to be brought to the centre stage of political theory. An influential section of theory scholars, for a variety of reasons, appear to be entranced by ideas of anti-foundational, relativist school of thinking. Such thinking appears as counterpoint to capitalist modernity. However, in this thinking there is a tendency to deny the realisation of emancipation through collective action. The discourse of Phuley-Ambedkar, like those of Gandhi and Marx proceeds on the basis of the emancipatory project. Pantham, himself, is aware of the problems involved in relativist versions of theory (pp 120, 175, 184, 188), although he does not elaborate on this point. With their firm belief in the foundational character of moral principles and their search

for emancipation, Phuley-Ambedkar's ideas can help in keeping the emancipatory project alive in theoretical exercises.

In the last few pages of this volume, Pantham discusses problems faced by and the role expected of Indian political theorists. Following Kothari and Kaviraj he, too, emphasises that 'original' political theorisation of Indian society "can be found not in the writings of the academic social and political scientists but in the praxiological works of...thinker-leaders of our national/freedom movement" (p 186). While there is no need to contest this fact, it is not necessary to lament it either. 'Moral-political' theorisation of social reconstruction is very unlikely to follow from the exercise of professional academicians. Left to academicians, theory may only become more sophisticated and in the process less concerned with social reconstruction.

Then, what is ailing Indian political theory? A few points may be ungrudgingly conceded. Teaching and research in political theory in India leaves much to be desired. Secondly, in spite of some improvement in the period since 1970, scholarly attention by political scientists to the task of critiquing our thinker-leaders has not been adequate. Thirdly, a genuine dialogue between Indian political theorists and their western counterpart is for the most part lacking. And finally, *a la* Bhiku Parikh, Indian scholars find the double burden of mastering both the western and Indian traditions too heavy to bear. Hence the 'poverty of Indian political theory'.

Or, is there some other burden? Except for occasional or 'orientalist' interest in, say, Gandhi or Hindutva, western political theorists happen to ignore the moral-political theories of Indian thinkers. Acquaintance with Phuley, Periyar or Ambedkar, for the most part, is restricted to 'India specialists' only and not to political theorists in general. As Pantham himself notes, Habermas or Rawls do not take note of the Gandhian discourse. Thus, Indian theorist assumes the 'burden' of educating (convincing?) his western counterpart about the moral-political theorisation that has taken place in India.

At the same time, the western counterpart decides what it means 'to do theory'. As Bhiku Parikh has said, the Indian political theorist 'needs to go west' in order to understand 'what it is to do political theory' – that is the *only way* (Parikh quoted by Pantham, p 192; my emphasis). In this journey to the west, most often, the Indian political theorist loses control over 'what kind of political theory to do'. He does the 'theory' which is the dominant mode of thinking in the west at a given point in time. Incidentally, Gandhi refused to do precisely this. He refused to be drawn irretrievably into the western discourse. He chose to talk to the Indian people instead. Our contemporary theory seeks western 'audience'; and in the process many times loses track of its main objective, i e, moral-political theorisation of social reconstruction of our society. Being intelligible to west becomes the prime concern of theory. Can this also be a reason for the 'poverty' of Indian political theory?

Note

1 Ashok Rudra, 'Emergence of the Intelligentsia as a Ruling Class in India', *EPW*, January 21, 1989, pp 142-50. Bardhan also includes the bureaucracy in the dominant classes, see, Pranab Bardhan, *The Political Economy of Development in India*, Delhi, OUP, 1984, pp 51-53 and pp 57-59.

Dalit Common Sense against Hindutva

Arun Kumar Patnaik

Contending Identities: Dalits and Secular Politics in Madras Slums by S Anandhi; Indian Social Institute, New Delhi, 1995; pp 63, Rs 40.

THOSE of us interested in the grass roots articulation of the Hindutva ideology, especially among the dalits, women, adivasis and workers will find it very useful to go through the monograph under review. This work specifically deals with the organisation of the dalits into the 'Hindutva' fold and also points out the inherent limits of the assimilation strategy adopted by the Hindu communal forces.

By deploying a range of conceptual tools borrowed from Antonio Gramsci, James Scott, Periyar and the contemporary debates on India's secularism, the author surveys the political and ideological responses of the dalit activists in four Madras slums. She successfully demonstrates how the Hindutva ideology of the Sangh parivar, the parliamentary Dravidian politics of the DMK/AIADMK, etc, even while incorporating the dalits into their hegemonic designs, remain extraneous to the dalit formations.

Anandhi has worked out her monograph in four stages. First, she offers a critique of narratives on secularism in contemporary India. The hegemonic secularism of the Indian state by compromising with the religious identities of the majority or minorities has finally given rise to the idea of majoritarianism which considers the activities of the minorities as essentially separatist and subversive for the nation-state in India today. The Left-liberals endorse modernity uncritically by seeking 'secularism from above' as initiated by the Indian state. The anti-modernists like A Nandy and T N Madan, to name two, end up in idealising the so-called 'tradition' as a means to counter communalism. All such intellectual efforts however fail to recognise "secularism as a contestatory practice which would concretely challenge caste, class and gender oppressions and reconstitute collective and individual identities" (p 4).

Second, the author goes on to locate the failure of the present-day Dravidian politics in Tamil Nadu to establish any organic relationship with the dalit formations. She identifies two phases in the history of Dravidian politics: the non-parliamentary Self-Respect Movement (SRM) (1928-1949) and the parliamentary cretinism of the DMK/AIADMK (since 1949). During its SRM phase, it was well recognised that "the struggle for freedom was multiple, with porous boundaries, shifting identities and numerous agents of change" (p 23). Periyar denounced not merely brahminical casteism but also non-brahmin casteism (p 25). The unity between the Adi-Dravidas (dalits) and the Dravidas (sudras) was a key concern in order to form "a united front against Hinduism" (p 24). So also, the critique of the caste order must articulate a critique of male domination. Thus, the struggles against multiple structures of domination like caste, Hinduism and male domination must be carried out by a united front of the dalits, sudras and women themselves. But this pluralist vision of struggle and unity was gradually replaced by an atomistic approach of the DMK/AIADMK which are steeped in the parliamentary mode of mass action (p 26). Their atomistic approach privileges the language-based identity as the most crucial issue of struggle and overshadows the plural agenda of the SRM. This approach valorises the Tamil past by glossing over the current contradictions as well as the past conflicts inherent in Tamil history. But, when forced by circumstances, the current Dravidian leadership somehow speaks of religion, it does not however address caste or gender oppressions or vice versa (p 27).

As a result of this atomistic approach of the current Dravidian leadership, the Hindu identity, caste identities and so on remain unproblematised, thus providing a platform for the Hindu communal forces to organise the dalits around religious issues. Third, the author examines the dalit responses to the Hindu communal agenda through a survey of four slums in Madras city. Faced with poverty, unemployment, insecurities in

unskilled employment in the informal sector and the lack of cultural dignity, the dalits "look for new and broader identities that transcend caste" (p 36). Capitalising on their precarious existence, the RSS and Hindu Munnani volunteers, consisting of 10 to 15 brahmin youths, carry out the project of assimilating the dalits into a pan-Hindu identity and cultivate in them hatred against the Muslims. They conduct night schools, bhajan sessions and shakhas for the young dalits. The dalit youths are told that Ambedkar was an RSS activist and are also occasionally offered money to launch hatred campaign against the Muslims. The dalit women are also encouraged to participate in 'public' activities such as the shilanyas puja (p 37). The impact of this Hindu communal agenda is well recounted by a dalit panchayat leader of Anumanthapuram slum, "We were very proud that a brahmin, placed high in the social hierarchy, who treated us as untouchables, has voluntarily come to us to impart knowledge and involve us in various public activities. We felt honoured and obliged to them" (p 38).

The 'Sangh parivar' attempts to systematically break the syncretic religious practices prevalent among the Hindus and Muslims in the slums. In its place, it re-imposes idol worship in public by funding and organising the Vinayaka Chaturthi celebration in the slums. Sometimes, each person is paid Rs 500 and provided with a Vinayaka statue. Idols 'representing' each slum are carried in public procession for immersion. The dalit panchayat leaders are given 'honour' of initiating these processions under the guidance of the Sangh parivar. The dalit collectivity/leadership thus generated is finally fed with rumours to create anti-Muslim riots especially during the immersion processions. The riots are important mechanisms to split the Hindu-Muslim bonds that might exist in economic or cultural spheres. The riots also mark the act of assertion by the dalits as Hindus in the entire process of their communalisation. The riots lock a number of negative stereotypes about Muslims in memories of the dalits who are their main actors, if not directors. A dialectical process of inclusion and exclusion thus sets deeper in the dalit common sense through communal pro-paganda, institution-building and riots directed by the Sangh parivar. On the one hand, the dalits feel integral part of a pan-Hindu identity/honour and, on the other hand, they develop an anti-Muslim consciousness. This process of 'filteration' of a communal ideology into the dalit common sense is brilliantly captured by the author (pp 30-43).

However, this monograph's uniqueness lies in the manner in which the author examines dalit common sense and develops, on its basis, a critique of the caste-based Hindutva agenda in the final chapters (pp 44-60). She explores how the dalits are pulled by contradictions in different directions. On the one hand, they may feel honoured by Hindutva's strategy to assimilate them. On the other hand, they realise that the Hindutva agenda ignores a critique of the caste order which is chiefly responsible for their degraded existence. Driven by such contradictory pulls, some dalit leaders who were earlier co-opted by the Hindu communal forces have now begun to re-think their pro-Hindutva stances. A dalit leader recounts that the dalits are 'pawns' in the pan-Hindu agenda against Muslims with whom they have rather a few things in common such as 'beef-eating' (p 46). Many dalit activists view the Hindutva agenda as an upper caste game plan against the poor cutting across the religious boundaries, as the Muslims are generally seen as poor as the Adi-Dravidas (p 49). Thus, the dalit common sense against the caste social order provides a significant antidote to the expansion of the Hindutva forces. Dalits recognise that 'poverty' cuts across religious boundaries. They recognise that caste/brahminism is one of the root causes of the degraded existence of the dalits. As a result, they show an urge for solidarity with the poor Muslims (p 52). In dalit praxis, one also discerns a formation of a democratic social order, an urge for unity with the oppressed communities. The author succinctly shows how these progressive elements present in dalit common sense could provide alternatives for reorganising India's polity fractured by the hegemonic secularism of a strong nation-state on the one hand and an ever homogenising agenda of the Hindutva forces on the other hand.

The present monograph, in my view, stands apart from earlier works on Hindutva's mass mobilisation programme such as the ones by Tanika Sarkar ('Women as Communal Subject', *Economic and Political Weekly*, August 31, 1991), Tapan Basu and others (*Khaki Shorts and Saffron Flags*, 1993) and Gyan Landey ('Hindus and Others', *Economic and Political Weekly*, December 28, 1991). The latter works offer a voluntarist critique of Hindutva as their critique is devoid of a basis in the subaltern common sense. These works smack of the Frankfurt Left's critique of western fascism. They argue that Hindutva forces succeed in assimilating the subaltern classes/communities by transplanting the Hindutva ideology in the common sense of the subalterns just as western fascism gained ascendancy by conquering the mass psychology. Such a one-sided analysis of subaltern consciousness/praxis fails to recognise the simple fact that if the subalterns (or a section) are already fully co-opted within the Hindutva fold, then our critique of Hindutva turns out to be a self-defeated enterprise because our presumed agency(ies) is not with us. Moreover, such a formulation also begs a question: where do ideas for a counter-hegemony programme come from?

Anandhi's monograph is illuminating for those who are disturbed by the above implications and questions that follow any voluntarist attack on a hegemony system. She locates 'resources of hope' in the positive elements of an otherwise contradictory praxis of the subalterns themselves, and suggests that everything is not lost for new democracy insofar as dalits and the dalit women are concerned despite the homogenising designs of Hindutva forces.

Manufacturing Productivity Growth

Method and Measurement

J Mohan Rao

Work on productivity measurement in Indian industry has left unaddressed several critical issues of method and the correspondence between theoretical measures and the indicators used to measure them. Before issues of interpretation are engaged, these methodological issues need to be clarified and, where possible, the measures recast.

The critical issues fall into four broad areas: (1) the method of growth accounting at the aggregate manufacturing (or any other) level; (2) biases imposed by particular methods of aggregation; (3) the econometric identifiability of the production function (at any level of aggregation); and (4) the interpretation of measured productivity growth.

The first and third issues are addressed in this paper for the organised sector of Indian manufacturing. Problems of aggregation and interpretation will be taken up separately in a companion article.

I
Introduction

ANALYSES of India's industrial performance, particularly for the period since the crisis of the mid-1960s, appear to have proceeded on two virtually parallel theoretical tracks. One approach has been to focus on supply side constraints, particularly those originating in the trade and industrial policy regimes and, to a lesser extent, public investment in infrastructure. The second approach has tended to emphasise demand constraints, relating these in turn to agricultural performance and/or shifts in income distribution, while also addressing sectoral disproportionalities within industry, including those arising from infrastructure bottlenecks. While a good deal of the debate of the past two decades has been framed in terms of an assumed opposition between these approaches, it is certainly possible to combine important elements of both in a complementary fashion.[1]

The purpose of this paper is not to reopen that debate, at least not in any direct fashion. Its focus is rather on a particular method of empirically measuring industrial performance that has acquired some prominence in recent years [see especially Ahluwalia 1991 and Goldar 1986]. The approach relies on an accounting decomposition or an econometrically estimated decomposition of the sources of growth. The results in the Indian case, particularly those due to Ahluwalia's extensive study of manufacturing at both aggregated and disaggregated levels, have been taken by some to be 'proof' of the deleterious effects of the industrial policy regime through the 1970s and the beneficial effects of policy liberalisation starting around 1980. Although neoclassically inspired and aiming to buttress a neoclassical position on the determinants of growth, the approach nonetheless provides a potentially valuable, empirical starting point for understanding performance. Acceptance of this starting point requires nothing more than approval of a production function-based characterisation of production possibilities, not an especially neoclassical theoretical position.[2] It is an altogether different matter that this starting point may well lead to diverse substantive conclusions depending on the theoretical frame within which it is interpreted (in conjunction with other empirical relationships).

However, the work on productivity measurement by Ahluwalia and others before her has left unaddressed several critical issues, of method and the correspondence between theoretical measures and the indicators used to measure them. Before issues of interpretation are engaged, these methodological issues need to be clarified and, where possible, the measures recast. The most important of these relates to the question of the proper deflation of value added – a question first raised in an excellent paper by Balakrishnan and Pushpangadan (1994). These authors (hereafter B-P) argued in favour of the separate deflation of the output and material input components of value added by their respective price indices and against the use of a common output price deflator which Ahluwalia and others had employed. Their computations showed that this procedural modification was critical enough that Ahluwalia's conclusion of a 'turnaround' in productivity growth was reversed.

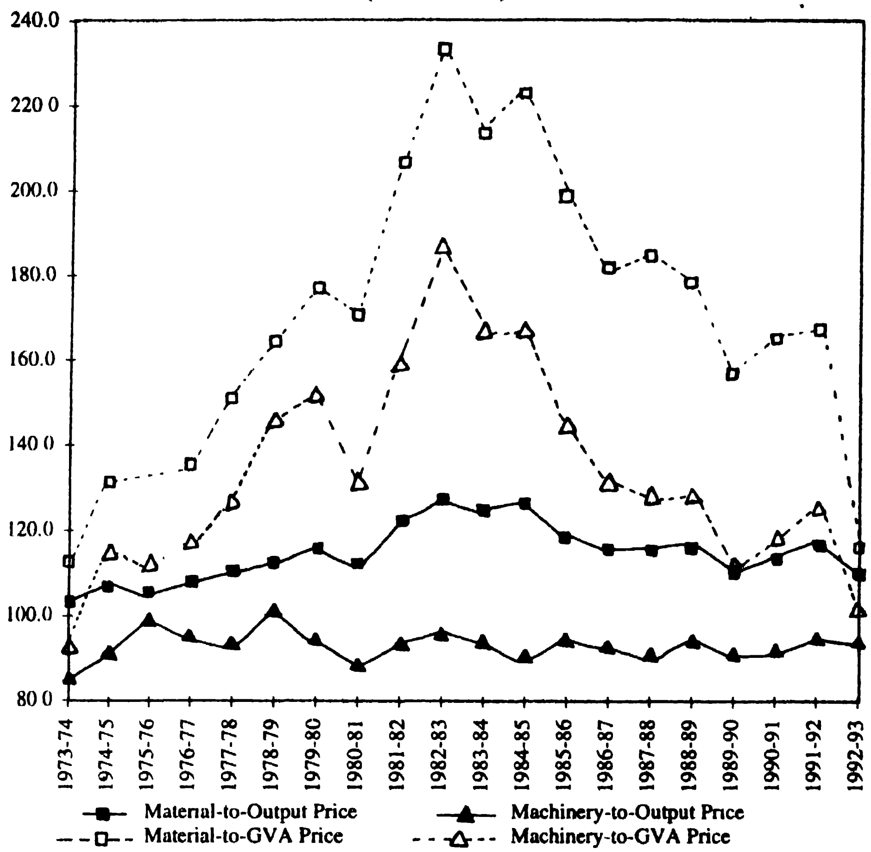
This study broadens the critique initiated by B-P and, within the limitations of available data, demonstrates the empirical relevance of each revision proposed. The critical issues fall into four broad areas: (1) the method of growth accounting at the aggregate manufacturing (or any other) level; (2) biases imposed by particular methods of aggregation; (3) the econometric identifiability of the production function (at any level of aggregation); and (4) the interpretation of measured productivity growth. The first and third issues are addressed in this paper for the organised sector of Indian manufacturing. Problems of aggregation and interpretation will be taken up separately in a companion article.

The paper is organised as follows: Section II asks whether productivity should be based on a measure of 'physical' output or on a measure of value added in production. The question is closely allied to the aforementioned contribution of B-P. We argue that the alternative deflation procedure due to B-P is also potentially susceptible to bias but can be replaced by an exact procedure that avoids any bias. So long as separability of material inputs from value adding final factors in the production function is hypothesised, productivity may be based on either output or value added measures of production. This recognition leads to an exact procedure for deflating value added that avoids biases inherent in both single deflation and double deflation.

Section III develops a correction to the measure of productivity growth conventionally based on the assumption of product market competition when that assumption is untenable. When firms have price-setting power, the direction of bias in the conventional measure is generally indeterminate but can be allowed for by employing information on the applicable competitive cost of (or return to) capital.

In section IV, we reconsider productivity measurement exercises that are based on the econometric estimation of the 'production function'. The principal advantage claimed for estimating production functions over growth accounting in identifying total productivity is that it avoids imposing the assumption of perfect competition in product and factor markets which growth accounting is supposedly obliged to. But the econometric identification of the

FIGURE 1: MATERIALS AND MACHINERY RELATIVE PRICE INDICES
(1970-71 = 100)



production function is itself suspect owing to simultaneity in the determination of input intensities and output levels. Attempts to get around this problem have, to put it mildly, not been successful though success is sometimes claimed on the basis of smuggling perfect competition back in as in the so-called dual approach. Apart from simultaneity, flexible functional forms that minimise a priori restrictions in estimating the production function may not be well-behaved. The data demands in estimating such forms may also compel a reliance on cross-section evidence which, if there is significant heterogeneity in outputs and inputs, can only yield unidentified or mongrel production functions.

Section V sets out the main results from recasting growth accounting based on the procedures laid out in the preceding sections. Relative price trends are first noted and their influence on current-value versus constant-value indices of input intensity (or partial productivity measures) is described. This is followed by a discussion of the various productivity indices obtained, the magnitude and trend differences among them and what they may imply concerning Ahluwalia's hypothesis of a 'turnaround' in industrial performance in the 1980s. The final section underlines the limitations of data, at least in the Indian context, that all studies of growth accounting must confront.

II
Total Productivity or Total Factor Productivity?

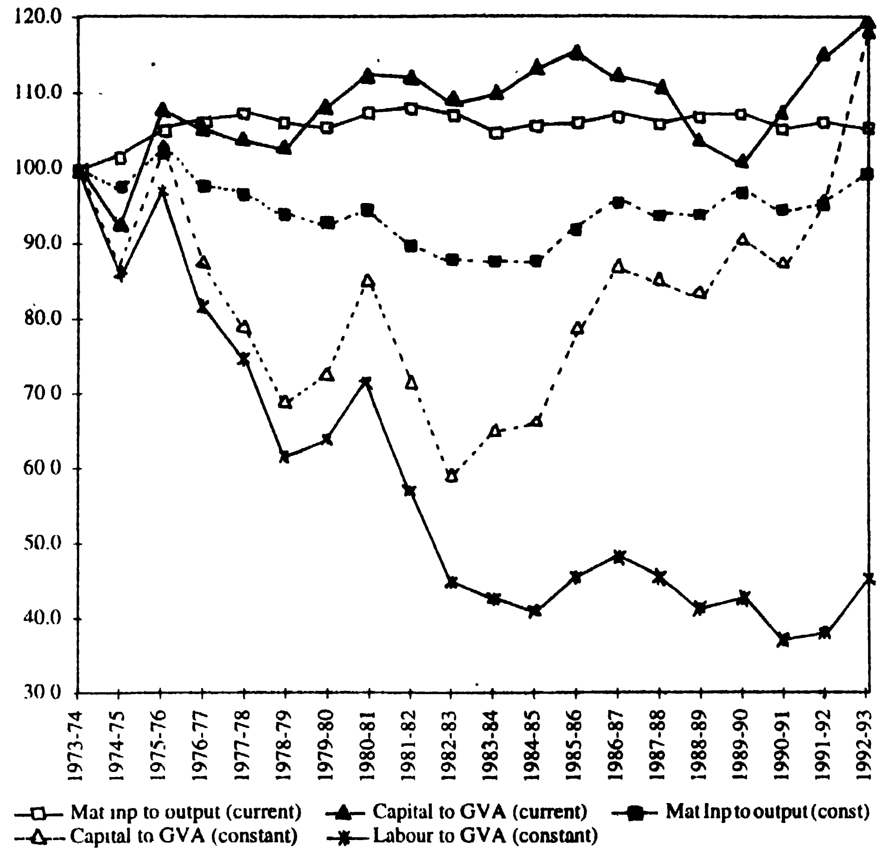
Partial measures of productivity (of labour or capital, for example) implicitly assume a Leontief technology. Productivity change over time is properly reckoned by such partial measures only if equi-proportionate changes in input coefficients are assumed. If such a characterisation of technology and technical change is invalid, then, leaving aside the problem of heterogeneity of inputs such as 'capital' or 'labour', total productivity must be measured on the basis of the concept of a production function admitting input substitutability. But a choice needs to be made between specifying output as gross production or as the 'value added' in production. The former option leads to a notion of total productivity (TP) while the latter gives rise to the widely deployed measure of total factor productivity (TFP). The choice hinges on whether one believes the production function to be separable in material inputs and factor inputs. To be empirically based, the choice requires identification of an engineering or econometric production function, a task which is frequently unimplementable in practice. At any rate, if the production function is not known, then, the choice is basically theoretical and may be difficult to refute empirically.

It might be argued nevertheless that by Occam's principle, TP is the preferred alternative because it entails one less a priori restriction on the production function. TFP measures are secured only by insisting that the production function is separable in material and factor inputs; no such restriction is needed for TP measures. Common sense also would point in the same direction: after all, firms may secure economies by choosing material input levels jointly with factor input levels and separability need hardly apply as a general restriction on

TABLE 1: PRICES OF OUTPUT, MATERIALS, VALUE ADDED AND MACHINERY

Year	Output Mfg WPI	Mat Input (Computed)	GVA Price (Implicit)	Machinery WPI	Mat to Output	Mach to Output	Mat to GVA	Mach to GVA
	(1970-71 = 100)				Relative Prices (1970-71 = 100)			
1970-71	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1973-74	139.5	143.2	129.9	122.2	102.6	87.6	110.2	94.1
1974-75	168.8	182.2	139.0	156.2	107.9	92.5	131.1	112.4
1975-76	171.2	179.4	156.9	173.2	104.8	101.2	114.4	110.4
1976-77	175.2	191.1	143.8	170.8	109.1	97.5	132.9	118.8
1977-78	179.2	200.9	134.9	172.8	112.1	96.4	148.9	128.1
1978-79	179.5	206.9	126.4	182.9	115.3	101.9	163.6	144.6
1979-80	215.8	253.2	141.9	211.4	117.3	98.0	178.5	149.0
1980-81	257.3	298.9	176.4	231.6	116.2	90.0	169.4	131.3
1981-82	270.6	330.1	159.5	254.2	122.0	93.9	206.9	159.3
1982-83	272.1	343.5	145.0	267.6	126.2	98.3	236.9	184.6
1983-84	295.8	365.1	171.2	283.8	123.4	95.9	213.2	165.8
1984-85	319.5	397.9	179.6	296.9	124.5	92.9	221.6	165.3
1985-86	342.6	408.0	227.7	326.6	119.1	95.3	179.2	143.4
1986-87	359.4	419.1	259.2	344.5	116.6	95.9	161.7	132.9
1987-88	384.4	450.7	273.2	356.4	117.2	92.7	164.9	130.4
1988-89	414.4	482.7	303.2	394.2	116.5	95.1	159.2	130.0
1989-90	457.3	517.4	372.9	422.0	113.1	92.3	138.8	113.2
1990-91	495.2	568.6	385.9	457.6	114.8	92.4	147.4	118.6
1991-92	549.3	632.6	423.5	528.7	115.2	96.3	149.4	124.8
1992-93	611.6	666.5	582.0	587.2	109.0	96.0	114.5	100.9

FIGURE 2: INPUT INTENSITY INDICES, MANUFACTURING



their choice sets. Indeed, one might argue that TP is a complete index of productivity because it accounts for material input conversion efficiency besides efficiency in value added. On the other hand, information regarding TFP (if its empirical measurement does not do too much violence to the underlying technological reality) appears to have greater intrinsic value for it is value added that is the final measure of the value of production. With this in view, it seems desirable to measure TFP while recognising the separability restriction underlying it.

Note, however, that with either measure of output, accounting for production growth must impose other a priori restrictions in any case. First, all firms included in the accounting must be assumed to possess the same production possibilities, describable by a well-behaved, constant-return-to-scale production function. Second, firms must produce outputs of undifferentiated quality with inputs of undifferentiated quality. Finally, the nature of shifts in production possibilities over time must also be restricted: the production function must be assumed to be a stable function of relevant inputs and of time which rules out shifts that involve non-smooth jumps of the function over time. In light of these necessary assumptions which cannot be held to be particularly 'realistic', the assumption of separability would not appear to be a gross additional transgression of realism.

While TFP can be measured only if the separability assumption is maintained, it is also the case that there is an exact relationship between TFP and TP under that assumption. This may (or may not) seem obvious but deriving the relationship throws useful light on the convoluted problem of 'single' versus 'double' deflation. Suppose the production function is given by

$$Q_t = F(L_t, K_t, M_t, t) \qquad ...(1)$$

where L, K and M stand for labour, capital and material inputs respectively, and Q for gross output. Production is assumed to be subject to constant returns to scale in the three inputs. The function F itself is assumed to be stable through time with any shift in the underlying input-output relations being captured as a smooth function of time. Assume also that measures of real output and real inputs can be constructed and that firms maximise profits taking all prices to be beyond their control. Differentiating (1) with respect to time and writing the result in growth form yields:

$$g_Q = \alpha g_L + (1-\alpha-\beta)g_K + \beta g_M + \delta \ln F/\delta t \quad ...(2)$$

where g_i is the rate of growth of the ith element in the production function, α is the competitive (imputed) share of labour in gross output and β is the competitive (imputed) share of material input. Although the time subscript has been dropped in equation (2), here and elsewhere below, all elements (including β in particular) in the growth decomposition are, in principle, functions of time. The last term is the residual of output growth not accounted for by the growth of inputs and is termed 'Total Productivity Growth'. Taking a purely supply-side view of output determination, the residual may arise from any change in the production function and is then taken to stand for all sources of productivity improvement (or its opposite). Equation (2) yields an expression for Total Productivity Growth:

$$TPG = g_Q - \alpha g_L - (1-\alpha-\beta))g_K - \beta g_M \quad ...(3)$$

Note that (3) is a general expression for TPG that holds whether or not the production function F is separable. To derive a similar expression for TFPG, assume that F is separable in the value adding factors L and K and the material input M. Assume also that 'value added' V is produced by L and K according to the following constant-returns function:

$$V_t = G(L_t, K_t, t) \qquad ...(4)$$

As before, given competition and profit maximisation, we can get a decomposition of growth in value added:

$$g_V = s_L g_L + (1-s_L)g_K + \delta \ln G/\delta t \quad ...(5)$$

where s_L is the competitive (imputed) share of labour in the value added function (4) and the last term, called 'Total Factor Productivity Growth', is the residual of value added growth not picked up by factor accumulation and, in a supply-side approach to production, is taken to stand for all sources of improvement in value added productivity. Equation (5) may be rewritten to yield an expression for Total Factor Productivity Growth:

$$TFPG = g_V - s_L g_L - (1-s_L)g_K \quad ...(6)$$

The growth decompositions in (6) and (3) are linked by the value added identity which, in *current* price terms, is given by

$$\pi_t V_t = P_t Q_t - \mu_t M_t \qquad ...(7)$$

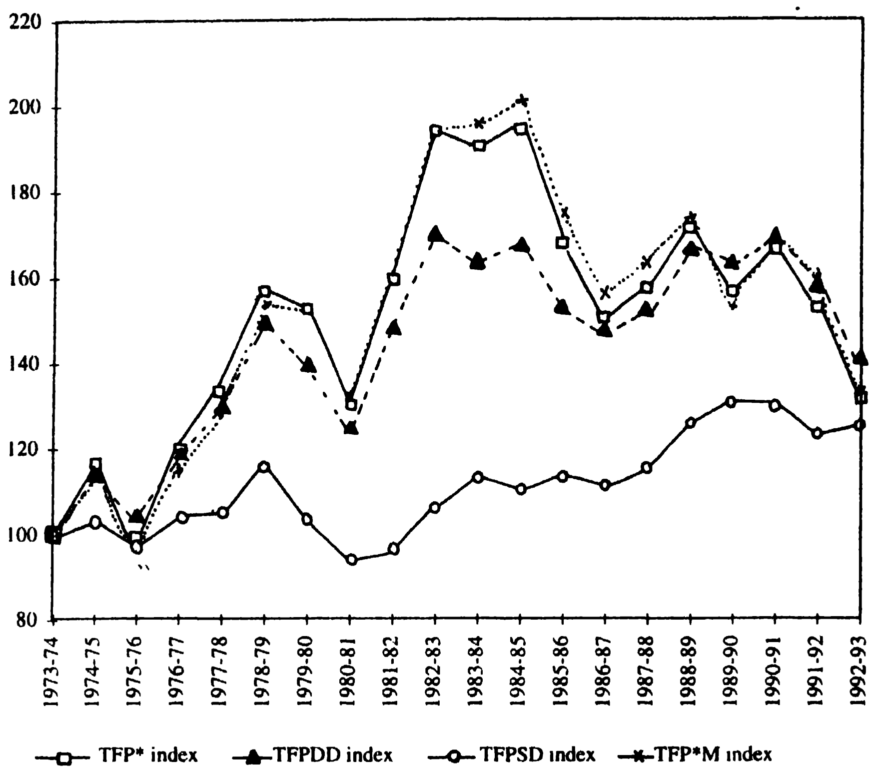
where P, π and μ stand for the nominal price of output, value added and materials respectively. Note that π is a notional price, not a market price. If π is otherwise determined, then, real value added is given by

$$V_t = P_t Q_t/\pi_t - \mu_t M_t/\pi_t \qquad ...(8)$$

Differentiating (8) with respect to time and rewriting the result in growth terms gives

$$g_v = \frac{P_t Q_t}{\pi_t V_t}(g_Q) - \frac{\mu_t M_t}{\pi_t V_t}(g_M) + \frac{P_t Q_t}{\pi_t V_t}(g_P - g_\pi) - \frac{\mu_t M_t}{\pi_t V_t}(g_\mu - g_\pi) \quad ...(9)$$

FIGURE 3: PRODUCTIVITY INDICES, MANUFACTURING



i e, the growth of real value added is the difference between the growth of output and of material inputs weighted respectively, by the value of output and the value of inputs per unit of (nominal) value added plus the similarly weighted difference between the growth of the price of output and of materials relative to the growth in the price of value added. Recall that π, the price of value added, is unobserved and as yet undetermined. It is naturally defined so as to set the last two terms in (9) equal to zero at each point in time for this leaves the measure of real value added growth independent of the changing prices of output and inputs relative to the price of value added, i e, the implicit deflator of value added should be set so as to have a price-neutral measure of value added growth. This yields a rule, determining the growth of the nominal price of value added, given by

$$g_\pi = \frac{P_tQ_t}{\pi_tV_t}g_P - \frac{\mu_tM_t}{\pi_tV_t}g_\mu$$

The growth in the implicit deflator is the difference between the share-weighted growth of the output price and of the input price, the weights being reckoned with respect to value added. The above rule ensures that there is a time-invariant measure of real value added. Given the definitional equation (7) and the first-order condition that defines β as the imputed share of materials, i e, $\mu_tM_t = \beta P_tQ_t$, we get the following expressions for the growth of the implicit deflator of value added and of value added itself:

$$g_\pi = \frac{g_P}{1-\beta} - \frac{\beta g_\mu}{1-\beta} \qquad ...(10)$$

and

$$g_V = \frac{g_Q}{1-\beta} - \frac{\beta g_M}{1-\beta} \qquad ...(11)$$

Observe that the price of value added is stationary either if P and μ are unchanging or if $g_P = \beta g_\mu$ both of which would be fortuitous conditions. Otherwise, the implicit deflator of value added varies over time according to the rule in (10). The growth of real value added, as (11) shows, is obtained by weighting output growth by the factor $1/(1-\beta)$ and material input growth by the factor $\beta/(1-\beta)$. Clearly, g_V is zero if real output growth equals β times real material input growth; if output and input grow at the same rate, real value added grows at that rate as well. Hence, (10) and (11) define the exact deflator of value added and growth rate of value added respectively.

TABLE 2: INPUT INTENSITY AND PRODUCTIVITY INDICES
(Manufacturing, 1973-74 – 1992-93)

Year	Mat Inp to Output (Current Prices)	Capital to GVA (Current Prices)	Mat Inp to Output (1960-61 Prices)	Capital to GVA (1960-61 Prices)	Labour to GVA (1960-61 Prices)	TFP* Index	TFP*(M) Index	TFPDD Index	TFPSD Index	Output Index
1973-74	100	100	100	100	100	100	100	100	100	100
1974-75	100.9	91.4	96.0	86.6	86.1	116.8	116.6	114.8	102.4	110.3
1975-76	104.0	106.4	101.9	102.4	97.8	99.7	97.5	102.4	98.0	122.3
1976-77	104.0	103.5	97.9	87.5	81.8	118.8	116.0	118.8	103.5	135.0
1977-78	105.2	102.2	96.4	79.1	74.7	131.7	127.2	129.8	104.7	149.8
1978-79	104.4	101.7	93.0	69.0	61.3	156.6	151.4	148.3	114.8	168.3
1979-80	105.0	107.8	91.9	72.1	63.7	150.2	149.2	139.6	102.0	166.3
1980-81	106.5	111.4	94.1	85.3	71.7	129.3	130.5	125.4	91.4	162.1
1981-82	107.4	111.2	90.4	71.2	56.3	160.3	161.6	146.4	96.5	182.9
1982-83	107.7	109.0	87.5	59.9	45.4	196.0	195.9	169.2	105.2	210.4
1983-84	104.5	109.9	86.9	64.6	43.3	191.2	196.6	162.7	111.3	207.1
1984-85	105.3	113.5	86.8	65.5	40.7	195.1	201.5	165.6	110.1	218.9
1985-86	106.0	114.3	91.4	79.4	44.5	167.4	171.2	157.3	112.0	231.9
1986-87	107.0	111.2	94.2	88.5	47.8	152.2	154.3	151.0	110.6	240.4
1987-88	106.7	110.1	93.4	86.1	44.9	159.3	162.0	156.0	113.6	259.6
1988-89	106.4	103.1	93.7	83.9	40.9	168.4	169.5	165.8	122.8	289.7
1989-90	106.7	100.3	96.8	90.8	42.3	157.7	155.5	163.3	128.2	326.4
1990-91	106.4	107.9	95.1	88.6	37.6	168.0	168.2	169.7	129.5	353.7
1991-92	106.9	113.4	95.3	95.9	38.5	157.9	161.1	160.0	120.3	350.7
1992-93	106.4	119.7	100.2	118.9	45.5	127.1	128.8	139.8	121.6	382.7

Substituting (11) into (6) yields

$$\text{TFPG} = \frac{g_Q - \beta g_M}{1-\beta} - s_L g_L - (1-s_L)g_K \quad \ldots(12)$$

Substituting for $(g_Q - \beta g_M)$ from equation (3) and simplifying gives an expression for TFPG in terms of TPG:

$$\text{TFPG} = \frac{\text{TPG}}{1-\beta} + \left(\frac{\alpha}{1-\beta} - s_L\right)(g_L - g_K) \quad \ldots(13)$$

Now α is the imputed share of labour in gross output while s_L is its share in value added. Since $(1-\beta)$ is the share of value added in output, $(1-\beta)s_L$ is the share of labour in output and must equal α. It follows that the second term in (13) is zero and we are left with TFPG = TPG/$(1-\beta)$. TPG can be calculated using (3): while material inputs have to be measured in real terms using an appropriate input price index, this calculation obviously requires no measurement of value added. Yet, if the separability assumption is entertained, then, TFPG can be readily obtained from the formula just stated, i e, TFPG = TPG/$(1-\beta)$, and no double or single deflation of current value added is needed.

While this link between TFPG and TPG, given separability in the production function, may seem obvious, it points up problems in the 'double' or 'single' deflation of value added to estimate TFPG. Under double deflation, the values of output and of material inputs are separately deflated by their respective price indices to arrive at a measure of real value added:

$$Q_{RT} = \frac{P_t Q_t}{P_t/P_0}\ ; \ M_{RT} = \frac{\mu_t M_t}{\mu_t/\mu_0} \quad \text{and}$$

$$V_{RT} = Q_{Rt} - M_{Rt} = P_0 Q_t - \mu_0 M_t \quad \ldots(14)$$

where the subscript R stands for 'real' (output, inputs or value added). Differentiating the last expression for real value added (V_{Rt}) with respect to time gives

$$\frac{\delta V_{RT}}{\delta t} = P_0 \frac{\delta Q_t}{\delta t} - \mu_0 \frac{\delta M_t}{\delta t}$$

which may be expressed in growth terms as

$$g_v = \frac{g_Q}{1-\beta_{0t}} - \frac{\beta_{0t} g_M}{1-\beta_{0t}} \quad \ldots(15)$$

where $\beta_{0t} = \mu_0 M_t / P_0 Q_t$, i e, the share of materials in output, both being evaluated at base prices. Although the double-deflated growth expression in (15) has the same form as the one in (11), β_{0t} in (15) is derived by valuing output and inputs at some base year prices whereas the valuations in (11) are based on current prices deflated by a time-dependent implicit price of value added. Substituting (15) into (6) and substituting (3) into the result yields the following expression for TFPG with double deflation:

$$\text{TFPG}_{DD} = \frac{\text{TPG}}{1-\beta} - \frac{(\beta-\beta_{0t})(g_Q - g_M)}{(1-\beta)(1-\beta_{0t})} \quad \ldots(16)$$

For any given year, TFPG_{DD} equals TPG/$(1-\beta)$ either if output and material inputs grow at the same rate in that year or if $\beta = \beta_{0t}$, i e, if the price of material inputs relative to the price of output in that year is the same as the relative price in the base year. In all other cases, the double-deflated measure of TFPG will be biased in proportion to the deviation of the input-output price-relative from the base level. The direction of bias is indeterminate not only because the numerator need not necessarily be negative (it will be positive if, despite a rise in the price of inputs, the material/output ratio rises due to technical change) but also because there is no assurance that β_{0t} is necessarily less than unity (though β must be less than unity for positive current value added). If β_{0t} is more than 1, this implies that value added at base prices is actually negative, a possibility that cannot be ruled out.[3] Apart from these possibilities, the double-deflated measure may be 'expected' to be downward biased relative to the true measure.[4]

Analogous reasoning establishes that when current price value added is deflated by the output price index alone (so-called single deflation), the growth in total factor productivity is given by

$$\text{TFPG}_{SD} = \frac{\text{TPG}}{1-\beta} - \frac{\beta(g_\mu - g_P)}{1-\beta} \quad \ldots(17)$$

Clearly, the bias of the single-deflated measure of TFPG in a given year is inversely related to the *change* in the relative price of material inputs in that year. By contrast, the bias of the double-deflated measure depends on the *level* of the relative price of material inputs in a given year as compared to the base year. Beyond this, no definite claim can be made as to the relative size of the bias of the two indices.

To sum up, if the production function is assumed not to be separable, then, any measurement of TFPG is conceptually ill-founded. In such a case, productivity growth will have to be measured only by TPG which captures all relevant sources of change though not separately of influences raising 'value added' productivity. But if the production function is assumed separable, then, a measure of TFPG can be obtained indirectly from the measure of TPG. In this case, the measurement of TFPG directly from value added data is unnecessary. Growth accounting can proceed without reference to value added even though total factor productivity is measured together with total productivity. Measuring TFPG with single or double deflation of value added will, in general, lead to a bias (generally downward in the case of double deflation and in inverse relation to the change in the material-output price relative in the case of single deflation). There is no definite basis for choosing between single deflation and double deflation and both are unattractive; but it is not a choice that need be made.

III
Price-Setting in Product Markets

Unlike agricultural sellers for example, sellers of manufactured products rarely operate under textbook conditions of competition. Typically, manufacturing firms set prices using some rule of mark-up over prime costs. Given market demand, the rule will be conditioned by how the mutual interdependence among sellers within the market is managed. Under conditions of uncertainty concerning the state of demand, the markup rule may not even depend on 'objective' demand parameters.

If such price-setting power prevails, then, it has potentially important implications for the measurement of productivity growth. The growth accounting procedure, with the modification noted above, can be adapted to a monopolistic product market setting also. To set the stage for the formal analysis of these implications, the growth accounting equation (3) may be rewritten as under:

$$\text{TPG} = g_Q - \sum_{K,L,M} \varepsilon_i g_i \quad \ldots(18)$$

The output elasticities $\varepsilon_i = (I_i/Q)(\delta Q/\delta I_i)$, where I_i is the quantity of the ith input (factors or material inputs), depend on the parameters of the underlying production function. With profit maximisation under conditions of all-round competition, these output elasticities equal the respective actual input shares; that is to say, $\varepsilon_i = s_i = P_i I_i / PQ$ where P_i is the competitive price of the ith input.

The equality of output elasticities and actual output shares ceases to hold under conditions of monopoly power because the

TABLE 3: TOTAL FACTOR PRODUCTIVITY GROWTH RATES

Productivity Index	1973-74 – 1980-81		1981-82 – 1992-93		1973-74 – 1992-93	
	Per Cent	t-ratio	Per Cent	t-ratio	Per Cent	t-ratio
TFP*	5.5	3.2	–2.2	–2.8	2.0	3.0
TFPDD	4.6	3.2	(–0.2)	–0.4	2.2	5.3
TFPSD	(–0.2)	–0.2	2.1	5.7	1.3	5.5

Note: Growth rates in parentheses are statistically insignificant at the 5 per cent level.

output decision of the firm affects the output price it secures, say according to the demand function $P = D(Q)$. Assuming strict factor market competition and no uncertainty in demand, rents arising from the exercise of market power will accrue to the residual claimant within the firm. It is reasonable to suppose that that claimant is the profit recipient or 'owner' of the firm, i e, capital. With this assumption in place, we may write down the optimisation problem facing the firm as follows.

$$\underset{K,L,M}{\text{Maximise}}\ D(Q)Q(K,L,M) - wL - \mu M - r_c K$$

where w, μ and r_c are the competitive wage, material price and cost of capital respectively (for convenience, we assume that the price of capital goods is unity). The first order conditions are:

$$P\frac{\delta Q}{\delta I_i} + Q\frac{\delta P}{\delta Q}\frac{\delta Q}{\delta I_i} - P_i = 0 \qquad ...(19)$$

Thus, the marginal revenue product, not the value of the marginal product, of the ith input is equated to its price. Multiply (19) through by I_i/PQ to get

$$\frac{I_i}{Q}\frac{\delta Q}{\delta I_i} + \frac{Q}{P}\frac{\delta P}{\delta Q}\frac{I_i}{Q}\frac{\delta Q}{\delta I_i} - \frac{P_i I_i}{PQ} = 0 \ ...(20)$$

The first term is the output elasticity ε_i of the ith input; the second term is the product of ε_i and the reciprocal of the elasticity of demand, say $\eta = -(P/Q)(\delta Q/\delta P)$; and the last term is the competitive output share of the ith factor. Thus,

$$\varepsilon_i = \frac{\eta}{\eta - 1}\frac{P_i I_i}{PQ} \qquad ...(21)$$

It is easy to show that $\eta/(\eta-1)$ is unity plus the markup over marginal cost. Hence, the monopolistic seller sets the output elasticity for each factor equal to (1 + markup) times its competitive share.

Let s_L, s_M and s_K be the actual output shares of labour, materials and capital respectively. While s_L and s_M will also equal the respective competitive shares at market prices, the actual share of capital, s_K, will be greater than s_{KC}, the competitive share of capital. Clearly, if r is the actual profit rate, then, $s_{KC} = (r_c/r)s_K$. Since constant returns to scale are assumed to hold, $\Sigma\varepsilon_i = 1$. Thus, the adding up condition, given (21) may be written as follows:

$$\Sigma\varepsilon_i = \frac{\eta}{\eta-1}\left[\frac{wL}{PQ} + \frac{\mu M}{PQ}\right] + \frac{\eta}{\eta-1}\frac{r_c K}{PQ} = 1 \ ...(22)$$

$$\text{or,}\quad \frac{\eta}{\eta-1}\left[s_L + s_M + s_{KC}\right] = 1 \qquad ...(23)$$

While the actual shares add up to unity, the competitive shares add up to only $(\eta-1)/\eta$.

Equation (23) can be solved for the demand elasticity η (or the markup factor $\eta/(\eta-1)$) in terms of the observable shares and profit rates. Using the relationship $s_{KC} = (r_c/r)s_K$, we get

$$\frac{\eta}{\eta - 1} = \frac{r}{(1 - s_K)r + s_K r_c} \qquad ...(24)$$

With the markup thus measured in observable terms, the formula for TPG, corrected for the exercise of price setting or monopoly power, may now be readily derived using (18), (21) and (24):

$$\begin{aligned} TPG_M &= g_Q - \Sigma\varepsilon_i g_i \\ &= g_Q - \frac{\eta}{\eta - 1}(s_L g_L + s_M g_M + s_{KC} g_K) \\ \text{or,}\quad TPG_M &= g_Q - \frac{r}{(1 - s_K)r + s_K r_c} \\ &\qquad \left[s_L g_L + s_M g_M + \frac{r_C}{r}s_K g_K\right] \qquad ...(25) \end{aligned}$$

After substituting from equation (18) and simplifying, this formula can be rewritten in terms of the 'competitive' measure of TPG:

$$TPG_C = TPG_M + \frac{(r - r_c)s_K}{(1 - s_K)r + s_K r_C}\left[s_L(g_L - g_K) + s_M(g_M - g_K)\right] \ ...(26)$$

So long as $r > r_c$ (so that some measure of monopoly power is exercised), the equation of output elasticities with observed shares (which is the conventional method, based on the assumption of all-around competition) to measure TPG produces biased estimates unless all inputs grow at the same rate. TPG_C will be an overestimate of true productivity growth if capital, whose measured share overstates its production contribution, grows less rapidly than labour or material inputs. It will be an underestimate of true TPG if capital grows more rapidly than the other inputs. The only additional information required to arrive at the 'true' measure of TPG (TPG_M) is the competitive profit or interest rate (the competitive cost of capital).

IV
Identifying Production Functions

An alternative to growth accounting – the direct derivation of output elasticities from an econometrically estimated function – exists and has been adopted by Ahluwalia (1991), among others. Ahluwalia estimates production functions for aggregate manufacturing as well as for various sub-sectors of manufacturing. Though the results by no means coincide in the two approaches, the production function estimates of TFPG appear to corroborate her principal finding of a turnaround in productivity growth in aggregate manufacturing in the early 1980s. But the 'production function' she estimates is a 'value-added function' and based on the same single deflation procedure she follows with growth accounting. Hence, her production-function-based findings are no less exempt from errors in the measurement of real value added than her accounting estimates. Our concern here is with the general claim that the econometric approach is superior to the accounting approach.

The putative advantage of estimating an econometric production function (which Ahluwalia accepts) rather than accounting for productivity growth is that assumptions such as constant returns to scale and perfect competition need not be imposed. When estimated, the parameters of the production function directly provide factor imputations (whereas growth accounting takes observed factor shares to be competitive and derives the relevant parameters from these shares) and the contribution due to shifts in factor productivity over the estimation period. Moreover, if flexible functional forms are used, returns to scale or homotheticity can be directly tested for. In this sense, the production function approach may be seen to be more scientific than its accounting counterpart. But the claim to scientificity cannot be made only on the apparent advantage just noted; what matters is the advantage after allowing for the adequacy of estimation of the production function itself. Accepted practice, however, routinely flouts the desiderata of best econometric practice. And even best econometric practice, it would seem, cannot overcome basic difficulties that arise in the identification of the production function. This section delineates the key difficulties involved.

To start with, the widely accepted claim that growth accounting must assume perfect competition is not valid: we have shown that reasonable corrections for product market monopoly power can be made. The minimal assumptions shared by both approaches are (1) a well-behaved production function; (2) stability of the function through time except for 'smooth' shifts; and (3) cost minimisation (which is only a subset of profit maximisation). However, growth accounting must make the additional assumption of constant returns to scale and derives output elasticities (with or without corrections for monopoly) from observed factor shares. An implication of the latter is that observed shares are taken to derive from a situation of market equilibrium. By contrast, if a production function can be estimated, neither of these assumptions need hold: returns to scale can be themselves estimated together with input-output relations whether or not markets are in equilibrium.

This is the advantage of the econometric alternative. How real is this advantage?

The crucial issue here is whether the production function is econometrically identifiable. Let us assume away all problems connected with the quality of data or of aggregation. Thus, assume that output and all inputs are correctly identified at the appropriate level. Consider cross-section estimation. If all firms in the sample possess the same homothetic technology, face identical product and input prices and minimise costs, then, they will all choose the same technique of production. There will be no observable variance in technique on the basis of which the production function can be estimated.

If the production function is non-homothetic, then, techniques will indeed differ depending on the scale of output chosen by each firm. However, it remains the case that output and input choices will be undertaken simultaneously; estimates of the 'production function' in isolation, assuming input levels to be independently given, will be biased and inconsistent. Such estimates cannot be interpreted in terms of the underlying structural model. In fact, the size distribution of firms in terms of output is itself a principal variable in the theory of industrial organisation under imperfect competition and therefore presumed to be structurally determined.

In practice, firms often differ in their techniques of production, sometimes substantially. Were this not the case, the well-established econometric cottage industry churning out cross-section estimates of production functions would long since be out of business. Note the implication of the variance in techniques in relation to the premises: firms with the same technology and presumably selling in the same market nonetheless face statistically significant variation in factor prices. But without further analysis, it cannot be assumed that the differences are necessarily exogenous. For one thing, firms may in fact vary in their access to different technologies: the 'market' for technology need hardly be perfect. If so, the very basis for fitting a production function, the assumption of a common technology, does not exist. For another, firms may face different prices in product and/or input markets. If these variations are due to differences in product or input quality, then, the widespread practice of treating output and inputs as homogeneous would incur measurement errors, potentially equal in extent to all the measured variance in technique. To be sure, some of the variance may be due to genuinely exogenous price regimes but this has to be affirmed empirically, not assumed a priori. Finally, firms may not all be behaviourally identical. They may vary in their proclivity or ability to optimise their resources (relevant factor markets may be non-competitive enough to support this source of variation as seems evidently to be the case in Indian industry). In such a case, the observed input-output relationship would not define the production frontier.

The problem is hardly alleviated in time-series estimation. While techniques will of course vary with changing prices over time, (a) the problem of simultaneity between output and input decisions remains; and (b) the estimation of a time-series production function must impose irreducibly arbitrary restrictions as regards the nature of technical change over time. In the extreme instance, suppose that the production function undergoes discrete changes from year to year (a possibility that cannot be ruled out without knowledge of the evolving production function itself). Obviously, such a possibility cannot be tested for (and ruled out) econometrically as the number of dummy variables must equal the number of observations. Hence, time-series analysis invariably assumes a stable production function through time except for shifts that can be econometrically controlled for. This particular difficulty, we hasten to add, would also nullify accounting estimates of productivity growth and is therefore not germane to the present comparison of the accounting and econometric alternatives. But it does impugn time-series estimation of production functions.

Time-series estimation is also frequently plagued by auto-correlation and multicollinearity (in the Indian case at least, especially between time and the capital-labour ratio). Moreover, the use of the 'flexible' translog function to allow for non-homotheticity is itself subject to important limitations. Restrictions on the function, which may be required to ensure that it is well-behaved over the sample observations, "rob the translog function of much of its flexibility, including the ability to approximate a non-homothetic production structure" [Little, Mazumdar and Page 1987:164) The best known study of manufacturing production functions in India presents translog estimates without, however, testing for their good behaviour [Ahluwalia 1991].

Ahluwalia's estimates rely on the translog function because of its virtues but since this leaves too few degrees of freedom in

TABLE A1: OUTPUT AND INPUTS
(Manufacturing, 1973-74 – 1992-93)

Year	Value of Output (Rs lakh)	Net Value Added (Rs lakh)	Deprecn (Rs lakh)	Material Inputs (Rs lakh)	Emoluments (Rs lakh)	No of Employees	Working Capital (Rs lakh)	Fixed Capital (1960 Repl Values Rs lakh)	Productive Capital (1960 Repl Values Rs lakh)
1973-74	1825888	413723	61747	1349725	221864	5145807	170168	1056262	1226430
1974-75	2448358	554342	67199	1826719	270708	5412872	181281	1116069	1297350
1975-76	2769203	565215	81690	2129188	302761	5667756	197636	1216739	1414375
1976-77	3144162	642035	91673	2417472	314606	5871150	209528	1286773	1496301
1977-78	3588004	702780	98188	2791393	357585	6227813	207380	1365783	1573163
1978-79	4067250	812091	122927	3140227	394662	6373477	236078	1472409	1708487
1979-80	4832928	942174	138230	3752524	466988	6816864	250731	1588951	1839681
1980-81	5616303	1029895	162840	4423568	523344	6811204	250642	1680245	1930887
1981-82	6717250	1207149	176393	5333347	577781	6864347	272343	1795024	2067367
1982-83	7849696	1399483	201173	6249033	685477	7042930	295931	1918580	2214511
1983-84	8399371	1626702	283877	6488792	783192	6791475	313917	2101908	2415825
1984-85	9604910	1785687	340717	7478505	899039	6773638	354682	2241485	2596167
1985-86	10930676	1988255	373767	8568655	925113	6483475	370348	2386445	2756793
1986-87	11894202	2096479	387127	9410597	1016987	6432633	313353	2527221	2840573
1987-88	13778195	2379442	529927	10868826	1158991	6722540	346110	2724926	3071036
1988-89	16678942	2954933	607538	13116475	1282703	6747891	337638	2963373	3301011
1989-90	20898645	3687392	731643	16479611	1513012	7043283	398333	3206202	3604535
1990-91	24599998	4389814	865040	19345144	1706246	7197898	443525	3599844	4043370
1991-92	27056272	4722182	952948	21381143	1863306	7254070	438360	3863317	4301677
1992-93	33008049	5864911	1174566	25968574	2300319	7736782	548715	4268126	4816841

her time-series sample, she combines cross-section (2-digit level) industrial data together with time-series Yet, the premise of her output measures is that the products at the two-digit level are distinct[5] which conflicts with the basic premise of the econometric estimation that all enterprises share the same technology. In addition, each 2-digit industry is allowed its own intercept while the slopes are taken to be shared by all industries which also denies the existence of a common production function among the same enterprises/industries.

One oft-resorted solution to the simultaneity problem exploits the fact that under a regime of competitive markets (all firms facing identical product and input prices) and constant returns to scale, factor shares will be equal to their respective output elasticities. The production function parameters can be estimated from the share equations under these conditions. But observe that this procedure imposes the untested restrictions of homogeneous output and inputs, constant returns and, above all, identical prices This last assumption can be readily tested against the actual data. In the Indian case, if the sample includes the typically wide range of small, medium and large firms, then, the assumption of identical prices will predictably fail to hold. Yet, the best known study of micro-level industry production functions in India, which is specifically addressed to the issue of 'small versus large', takes resort to this solution despite the large dispersion in prices [Little, Mazumdar and Page:1987]. But more pertinently to the context at hand – the estimation of aggregate productivity growth – such a procedure voids even the putative advantage of production function estimation: if the production function is to be econometrically identified only by imposing the assumptions of constant returns and competition, then, one might as well save oneself the bother of estimating these functions and resort to growth accounting instead.

V
Productivity Trends, 1973-93

This section reports the productivity growth results of applying the above-developed procedure for deflating value added, with or without correction for monopoly power in product markets, for the organised segment of Indian manufacturing. The organised segment includes all factories registered under the Factories Act and excludes manufacturing enterprises employing fewer than ten workers with power and those employing fewer than 20 workers without power. The period of study extends from 1973-74 through 1992-93. The choice of time period was dictated by the availability of data.[6] Table A1 presents the basic output and input measures employed in the present exercise (the source being the Annual Survey of Industries).

In employing this data for the purposes at hand, the following, rather heroic, assumptions are maintained: (1) Manufacturing output, which is total industrial output less the output of electricity, gas, water and repairs, is taken to be a single homogeneous output with a single well-behaved technology. (2) The wholesale price index (WPI) for manufacturing (base 1970-71) is taken to be the price of this homogeneous output. (3) Labour input into manufacturing is measured by the 'number of employees' and no skill or quality adjustments are made to arrive at a measure of labour in efficiency units. The marginal product of this homogeneous factor is measured by the mean 'emoluments' per employee for aggregate manufacturing. (4) Similarly, total material inputs and the total capital stock for manufacturing are treated as homogeneous aggregates to form material and capital input measures as described below.

The flow of capital services is assumed to be proportional to the (changing) stock of capital. Unlike previous studies, total 'productive capital' inclusive of both fixed and working capital is used. The exclusion of the latter is defensible only if its ratio to fixed capital remains unchanged over time which is demonstrably not the case: not only is this ratio non-negligibly large but it also varies significantly over the period (between 11.3 and 16.3 per cent).[7] Real productive capital is measured as the sum of working capital deflated by the manufacturing WPI (at 1960-61 prices) and fixed capital at replacement values (also at 1960-61 prices). The construction of the fixed capital series at replacement values follows the perpetual inventory method as described by B-P.[8]

We also follow B-P in the construction of a material price index for manufacturing which is needed to derive the real value (or quantum) of material inputs. This involves two essential steps. First, an appropriate basket or mix of material inputs into manufacturing is identified for a base year. Second, the wholesale price indices for the components of this basket are aggregated using their respective weights in the base year mix to arrive at the material price index. The basket that B-P employed involves 19 items (inclusive of 'own' manufactured inputs such as chemicals and chemical inputs and 'purchased' inputs such as electricity and minerals) and their weights are based on the input-output table for 1973-74.[9] Dholakia and Dholakia (1994) observed correctly that the input mix employed by B-P applies to all manufacturing rather than to the organised segment alone and proposed an alternative set of weights applicable to registered manufacturing. But, as B-P noted in their reply [Balakrishnan and Pushpangadan 1995], the method by which these alternative weights are derived is not specified. At any rate, the two sets of weights are insignificantly different from each other which is also pointed out by B-P. While there are undoubted difficulties, due to data limitations, in arriving at the correct set of weights, we thought it fit to stick with the original set of weights proposed by B-P not only to ensure comparability of results but also because theirs appears to be a reasonable even if not the ideal approach to arrive at the needed index. The results we report below are subject to revision, we expect of a minor order, when a more appropriate input price deflator becomes available.

Table 1 presents the material input price index that we obtained together with the published WPI for manufacturing and for machinery and metal tools ('machinery' in the table). Column 4 also shows the implicit price of gross value added (GVA) obtained in the course of calculating Total Productivity Growth following the procedure in Section II. These various price indices are used to calculate relative prices which appear in the last four columns of Table 1 and in Figure 1. The first main observation from these is that the material/output price relative rose during the first half of our period peaking in 1982-83 at 126 per cent of its base year level. It declined virtually steadily thereafter but was still about 109 per cent of the base level at the end of the period. Among 'purchased' inputs, mineral oils and especially minerals rose in price (relative to manufactured output) throughout the period with the sharpest increases coming in the early 1980s; the relative price of electricity, on the other hand, remained fairly stable through 1980-81 and rose sharply thereafter. Among 'own' inputs, textiles and chemicals fell while the relative prices of paper products and especially basic metals rose very sharply for most of the period. Clearly, the trend in the relative price of material inputs is explained not only by rising prices of purchased inputs but also by realignments in relative prices within the manufacturing sector. It no doubt reflects, at least in part, the cumulative effects of the oil price shocks.[10]

These relative price trends in materials and output show up in the implicit price of value added. The implicit price relative to the price of output (expressed in per cent of its base value) falls rather sharply over the first half of the study period to only 53 (in 1982-83); it rises gently thereafter to about 77 in 1991-92 and substantially in 1992-93 to reach 95. The implication of these measurably large swings in the price of value added is that the current-price series of value added will understate the growth

of real value added in the first half and overstate that growth in the second half of the study period. This is a key observation that underlies the main results on productivity growth, in comparison with previous estimates based on single deflation and (to a lesser extent) with B-P's estimates based on double deflation, to be discussed below.

Table 1 also shows that the price of machinery (a rough index of the price of capital goods) fell a bit during the second half of the period when imports of capital goods rose under a liberalised regime while a domestic excess of capacity was building up. But it is the last two columns that point to the second main observation regarding price trends: the significant swings in material prices and the mild shifts in machinery prices are both substantially amplified when expressed relative to the implicit price of value added. Figure 1 shows the amplification effect quite clearly. Over the period of study, the share of material inputs in output (in current price terms) ranged between 73 and 80 per cent; since the value added share of output is correspondingly small, the change in the relative price of materials to output is amplified several times over in value-added terms.[11]

Naturally, these price shifts are implicated in any comparison of input intensities (equivalently, partial productivity indicators) at current and constant prices. Figure 2 together with the first five columns of Table 2 help make these comparisons. Material input intensity is measured as the ratio of the value of material inputs to the value of output (at current or constant prices). Similarly, capital intensity is expressed as the ratio of the productive capital stock to gross value added (also at current or constant prices). Several conclusions emerge from a perusal of Figure 2 and Table 2. First, while the material intensity of production, in current price terms, shows a definite uptrend through 1982-83 and a scarcely noticeable trend thereafter, in constant price terms the trend is strongly downward until 1984-85 and upward thereafter. The difference arises from the shifts in the material-to-output price relative noted above and any substitution away from materials that this engenders. Second, capital intensity in current terms broadly rises until 1985-86, falls over the next four years and rises again over the following three; by contrast, there is a pronounced trend fall in the capital intensity of constant-price value added till 1982-93 and an equally pronounced trend increase thereafter.[12] The contrast is due to the trends in the implicit price of value added as well as the (less significant) shifts in the price of machinery relative to that of value added. Finally, the (constant price) value added productivity of labour rose more than two-fold over the entire period but virtually all of the increase had taken place by 1983-84. Putting these observations together, a sharp contrast emerges between two sub-periods (dividing at around 1983-84 though the turning points vary for each input). During the first, the partial productivity indices of materials, capital and labour (all in 'real' terms) show a marked rise; during the second, material productivity declines significantly and capital productivity declines even more sharply while the rising trend in labour productivity tapers off.

The reader will not have failed to notice that the two rough periodisations – one in terms of trends in (real) partial productivity indices and the other in terms of relative price trends – overlap significantly even if they are not perfectly coterminous. The question might well be raised whether the productivity trends are real or artefacts of the price deflators employed. While we believe that there is still room for refinement in the price indices used, it would be surprising indeed if the clear trend differences in productivity that Figure 2 reveals would be simply ironed out by any such refinement. The overlap in the price and productivity periodisations seems rather to be a coincidence, a spurious correlation. It is nevertheless fair to state that a definitive judgment on this matter must await more detailed work refining the constructed price measures.

The right half of Table 2 sets out the computed indices of Total Factor Productivity which are also represented graphically in Figure 3.[13] Table 3 reports semi-logarithmic trend growth rates for the productivity indices for the whole period as well as for two sub-periods (1973-74 to 1980-81 and 1981-82 to 1992-93, hereafter 'Period 1' and 'Period 2', respectively). The sole criterion for the periodisation here follows Ahluwalia's central conclusion that there was a break in the trend of manufacturing productivity around 1980-81 following reforms in industrial and trade policy.[14]

Observe first that the estimates of TFP with the correction for monopoly power (TFP*M) are very close to the estimates of TFP without the correction (TFP*) for most years.[15] In fact, the difference between the two index values does not exceed 3 per cent in any year. The computed markup rate (reckoned in terms of output, not value-added, prices) is under 8 per cent for virtually all years. The markup factor, it should be recalled, is calculated for all of organised manufacturing – for small and large enterprises and for public and private ones. This may help account for the relatively low value of the markup and the correspondingly small correction needed in the TFP index. Whatever the reason, the discussion that follows leaves TFP*M out.

Table 3 (row 1) shows that the trend rate of growth of TFP was 2 per cent for the entire period. However, it was as high as 5.5 per cent in Period 1 and negative 2.2 per cent in Period 2. The contribution of productivity growth to value added growth was 33 per cent for the study period and, 52 per cent and -96 per cent, respectively, for Period 1 and Period 2. These results are obviously in keeping with the trends in partial productivity already noted and suggest that the early 1980s do mark a turning point but not from negative to positive productivity growth but the other way around. Consider, on the other hand, the productivity index based on single deflation (TFPSD). For the full 19-year period, its trend rate of growth was 1.3 per cent. The productivity growth rate for Period 2, however, is 2.1 per cent and for Period 1 –0.2 per cent (but not statistically significant). Though Ahluwalia's study period ends in 1985-86 while ours extends through to 1992-93, the computed TFPSD index clearly replicates Ahluwalia's conclusion of a positive turnaround in productivity growth

Finally, consider the productivity index obtained from double deflation (TFPDD). The exponential growth rates in this index are 2.2 per cent for the whole period and 4.6 per cent and –0.2 per cent (not statistically significant) for Periods 1 and 2, respectively. Whereas TFP* yields a significant adverse turnaround in productivity growth between the two periods (a swing of 7.7 percentage points in the growth rate), TFPDD implies a shift only from positive growth to zero growth (a swing of 4.8 percentage points). But the differences between the index values of TFP* and TFPDD are substantially smaller than the differences between TFP* and TFPSD. In this sense and for the specific instance of Indian manufacturing during the chosen period, the double deflation index suffers significantly smaller bias than does the single deflation index. But this need not hold in general. Given the relative price trends over the period, the reader may verify that the biases in the computed TFPDD and TFPSD indices reflect the cumulative effect of the biases in the corresponding TFPG estimates as formalised in equations (16) and (17).

VI
Conclusion

We should like first to reiterate the limitations of data that underlie this study in common with all previous studies of productivity growth in Indian manufacturing. Although the productivity index (TPG*) proposed in the present study does away with the biases induced by the single and double deflation procedures, it is nonetheless reliant, as are previous studies, on price

series that have one or another base year. These index numbers cannot accommodate changes in the commodity composition of aggregated output occasioned by the emergence of new products or new materials. But observe that such 'structural' shifts already deny the validity of the assumption of a stable production function necessary to growth accounting. The use of chain indices can only allow for shifts in the weights of a fixed vector of inputs and, at any rate, requires price series based on each year in the period considered which are unavailable. An additional data problem that the present study makes clear is the need for a secure basis for deriving an input price index for manufacturing. The capital stock series used in this and previous studies may also be faulted for being based on replacement ratios derived from data three decades back in 1960. An appropriate dose of scepticism is clearly called for when viewing the productivity index reported in this study as the true measure of industrial performance.[16]

The substantive results of this study are at variance with the perception of an improvement in industrial performance in the 1980s as compared with the previous 15 years. However, such a perception needs to be carefully checked against the data for relevant time periods and relevant indices of performance. In terms of the growth in the real value of output our calculations based on ASI data show an exponential rate of 6.9 per cent per annum for the 1973-74 to 1992-93 period: this breaks down into 8 per cent for Period 1 and 7 per cent for Period 2. Though the inter-Period difference is not large, if Period 1 were extended backward to say 1970 or 1965, the difference in growth rates between the two Periods would vanish or even change in sign. Similarly, a different base year, say 1980-81, for the output price series may also make a difference. However, real value-added growth rates are indeed very substantially different between the two periods, a difference that is submerged in the current price numbers of value added. The exponential growth rate is 6.1 per cent for the study period but 10.6 per cent for Period 1 and only 2.3 per cent for Period 2. While index number problems are also probably implicated, the difference cannot be dismissed out of hand on that count. The oil price shocks (and administrative price reforms?) produced significant realignments in relative prices (which certainly show up in the material-input-to-output relative price index employed in this study) that must be accounted for in any assessment of 'real' trends. This is precisely what our procedure seeks to do. While there is room for refinement in the statistical base, it seems clear that the established perception regarding trend shifts is in need of a change.

Notes

1 For a model combining an independent investment function governed by profitability and utilisation in industry and an agricultural sector whose output is limited by infrastructure supply, see Rao (1993). Growth is shown to be simultaneously determined by demand constraints (including the mutuality between industry and agriculture) and by supply constraints (reflecting a mix of public financing and supply efficiency parameters).

2 If capital (or for that labour) is heterogeneous, then, the appropriate response is to treat it in its disaggregated forms rather than discard the production function itself.

3 Dholakia and Dholakia (1994) provide a numerical example of the possibility of negative value added under double deflation.

4 B-P acknowledge that double deflation adds a measurement bias due to the "prices used being index numbers with fixed base" (see Balakrishnan and Pushpangadan, 1995, p 463). We have identified this bias precisely; having identified it, it can obviously be eliminated

5 She chooses to measure real output by deflating nominal output at the 2-digit level by their respective wholesale prices, a practice not followed by us (or B-P and Goldar)

6 The ASI did not publish statistics for the year 1972-73. Although aggregate statistics for industry and manufacturing are available for earlier years, statistics disaggregated by size of establishment or by ownership are unavailable for years prior to 1973-74 Since the present study (including the paper to follow) aims to provide growth decompositions for both aggregate manufacturing and its disaggregates by size and ownership, it was decided to have a uniform period throughout This restricts the period of study to 1973-74 to 1992-93.

7 The aggregation of working capital and fixed capital, on the other hand, may be defended on the ground that even if they entered the production function as separate arguments, optimisation would render their marginal products equal

8 Goldar (1986) incorporates a positive rate of discard of fixed capital (at 2 per cent per annum) which the present study does not. Since the discard rate in Goldar is constant, any difference this makes in TFP estimates will not be measurably large.

9 B-P also used the weights based on the 1983-84 intput-output table. In the present study, only the input price index based on the 1973-74 weights is employed. Note also that the wholesale price indices for output and all material inputs have 1970-71 as base.

10 The separate influence of increases in administered prices, especially of products produced in the public sector, cannot be ruled out; however, it would be difficult to separate out such an influence from the other major exogenous price shocks (particularly of energy). As far as we are aware, no careful analysis of the pass-through of the oil price shocks into the manufacturing sector exists.

11 Though the amplification effect largely reflects the output-to-value-added multiple, it also depends, as is evident from equation (10), on variations in this multiple through time together with variations in the input and output prices.

12 Rising capital 'output' (meaning value added) ratios, reckoned in current price terms, have been a bone of contention in the debate about industrial performance. Rising machinery prices relative to output prices cannot, however, bear any part of the explanation for the rise in (current price) capital intensity during the period of study. While the machinery price relative rose through 1978-79, capital intensity was actually declining from 1975-76 through 1978-79 For the rest of the period, machinery prices fell or at least did not rise.

13 TFPG rather than TPG indices are reported as the former are familiar stock-in-trade in productivity studies and also to ensure comparability with previous studies based on single or double deflation Note also that since the data are annual time-series, all TFPG indices are computed using the Divisia-Tornquist approximation.

14 Actually, Ahluwalia identifies two distinct break years: her growth accounting-based analysis suggests 1980-81 as the turning point while her econometrically estimated production function exercise points to 1982-83 In point of fact, no substantively or statistically significant difference emerges from either choice. We have retained 1980-81 as the break year not only because this alternative is highlighted by Ahluwalia herself but also because that choice gives the maximum benefit of doubt to her turnaround hypothesis

15 We have used the loan rate charged by the IFCI and IDBI as the 'competitive cost of capital' for the organised segment of manufacturing

16 Sastry (1995) also notes that while ASI material inputs are inclusive of taxes and duties, output values are ex-factory.

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Rukhmabai: Debate Over Woman's Right to Her Person

Sudhir Chandra

Justice Pinhey's verdict rescinding Dadaji Bhikaji's claim to restitution of conjugal rights over his wife, Rukhmabai, snowballed in the late 19th century into a verbal duel between the Anglo-Indian press and the native press. While the Anglo-Indian press was exultant at the proven moral superiority of the British legal system, the native press was alarmed at the threat of socio-cultural subversion of Hindu family and society the judgment posed. Only in the writings of Malabari and a few other reformers do we find a justification of the verdict based on native discourse of conjugal norms.

I

ON September 21, 1885, an extraordinary judgment was delivered by Justice Pinhey of the Bombay High Court in a suit for restitution of conjugal rights. Filed a year-and-a-half before, the suit involved Dadaji Bhikaji and Rukhmabai who, during the 11 years that they had been married, had never lived together. When in March 1884 Dadaji made the first legal move to claim the company of his wife, Rukhmabai refused on the ground of his poverty – he was unable "to provide her lodging, maintenance and clothing" – and bad health, which was such that she could not "safely live with him". To these contingent objections Rukhmabai soon added a principle of cardinal importance. She questioned the validity of her marriage with Dadaji. Married when she was 11, before she had "arrived at years of discretion", she refused to be bound to it. A marriage – even a Hindu marriage – ought not to be binding on a spouse who had not consented to it.

The case came up for hearing on September 19. The same morning *The Times of India* carried a long letter by 'A Hindu Lady' which detailed the tragic plight of Hindu women. To make sure that it did not escape the readers' attention, *The Times of India* carried an editorial to commend the letter.[1] Given the importance of the premier Bombay daily, and the everyday routine of Anglo-Indian officials, it can be assumed that Pinhey must have read the letter and the editorial before leaving for the court, and that the proceedings in the case later in the day must have confirmed the impressions of the morning's reading.

The following day was a Sunday and the hearing in the case resumed on September 21. After the evidence and the arguments for the plaintiff had been presented, Latham, the advocate-general, got up to present Rukhmabai's defence. Before he could speak, the judge told him:

> Mr Advocate-General, unless you are particularly anxious to make some remarks for the assistance of the court, I think I need not trouble you as I am prepared to dispose of the case at once.

The advocate-general naturally evincing no such anxiety, Pinhey proceeded to pronounce a hard-hitting and morally charged verdict. Ever since he heard the case on Saturday, he had been "looking into the authorities" which had convinced him that "the plaintiff cannot maintain this action". Having given the verdict straightaway, he proceeded to elaborate the grounds thereof.

It waw a "misnomer", Pinhey began, "to call this a suit for the restitution of conjugal rights". According to the practice in England and British India, a suit for restitution of conjugal rights was one that, in the event of separation and living apart after cohabitation, either spouse could bring against the other. The suit filed by Dadaji was not of that character. In a narrative reflective of his axiomatics Pinhey observed:

> The parties to the present suit went through the religious ceremony of marriage eleven years ago when the defendant was a child of eleven years of age. They have never cohabited. And now that the defendant is a woman of twenty-two, the plaintiff asks the Court to compel her to go to his house, that he may complete his contact with her by consummating the marriage. The defendant, being now of full age, objects to ratifying and completing the contract entered into on her behalf by her guardians while she was of tender age.

Having unabashedly shown his sympathies, sympathies natural in one favouring marriage as a contract and consent as essential to it, Pinhey unburdened his shocked sensibility in morally charged diction:

> It seemes to me that it would be a barbarous, a cruel, a revolting thing to do to compel a young lady under those circumstances to go to a man whom she dislikes, in order that he may cohabit with her against her will...

It was, however, on legal grounds that Pinhey avoided doing what appeared to him barbarous, cruel and revolting. As he examined the case law over the agonising weekend, he found that no court had ever ordered "a woman, who had gone through the religious ceremony of marriage with a man, to allow that man to consummate the marriage against her will". Neither the law nor the practice of the courts in England and India would therefore justify him in "making such an order" or Dadaji in "maintaining the present suit".

Pinhey realised the futility of expecting an English precedent that would be "on all fours" with the suit before him. For, unlike infant and early marriages in India, marriages in England were between persons of mature age, and consequently the nuptial and the consummation of marriage were not normally separated much in time. He regretted – and this is important – that "the practice of allowing suits for the restitution of conjugal rights", which had "originated in England under peculiar circumstances", was at all transplanted in India. It had "no foundation in Hindu law – the religious law of the parties to the suit" before him. "Under the Hindu law", he emphasised, "such a suit would not be cognisable by a Civil Court". Indeed, for many years after he came out to India – in 1851 – the courts did not admit such suits. They began doing so only in the wake of the post-1857 judicial and legal reconstruction that occasioned the amalgamation of the supreme and sadar courts into the high courts.

Pinhey's regret about the transplantation in India of English legal practice was heightened by the fact that it had been discredited in England. Crystallised in Sir James Hannen's judgment in Weldon vs Weldon,[2] English opinion against the practice had resulted in the Matrimonial Causes Act – Stat 47 and 48 Vic, cap 68 – of August 1884. The act removed the penal provisions of the law which subjected to imprisonment and/or attachment of property a spouse who disregarded the court's directive to resume cohabitation.[3] The act had in fact rendered 'almost inoperative' the practice of allowing such suits.[4]

However salutary the changes in England, and whatever the position under the Hindu law, Pinhey knew that he was bound by the unregenerated English law that still obtained in India. All he could do was to refuse to enlarge its application ever so little to include institution within the meaning of restitution of conjugal rights. Legally not incumbent, such an enlargement would be morally reprehensible. In his impassioned words, he was not bound.

> ...to carry the practice further than I find support for in the English authorities, especially when the granting of the relief prayed would produce consequences revolting not only to civilised persons, but even to untutored human beings possessed of ordinary delicacy of feeling... I am certainly not disposed to make a precedent, or to

extend the practice of the Court in respect of suits of this nature beyond the point for which I find authority.

Secure in the belief that he had devised a legal way out of a moral dilemma, Pinhey was 'glad' that[5]

in the view of the law which I take, I am not obliged to grant the plaintiff the relief which he seeks, and to compel this young lady of twenty-two to go to the house of the plaintiff in order that he may consummate the marriage arranged for her during her helpless infancy.

The moral exuberance of Pinhey's oration belonged in the tradition of those trenchant judicial pronouncements – a classic example being Justice Maule's oft-quoted speech in Regina vs Hall (1845), exposing the inequitousness of English matrimonial laws,[6] which churned the conscience of Victorian England and facilitated many an important legislative intervention. However, the anxiety to provide his moralism with the cover of law led Pinhey to explain not only the 'why' but also the 'why not' of his verdict. Worried lest his sympathy for the 'enlightened and cultivated' lady be misunderstood – as indeed it was and on purpose – he tock pains to clarify that he had not accepted her entire defence. For example, he was in no doubt that Dadaji was a poor man and had given 'much false evidence' about his pecuniary position; and that his uncle had on the same point given, 'if possible, evidence less credible still'. Yet, poverty was 'not one of the reasons' for the rejection of Dadaji's claim. "A poor man", Pinhey felt constrained to reassure, "has as much right to claim his wife as a rich man to claim his".[7]

If Pinhey's cautious concluding remarks were meant to offset the flamboyance of his judgment, the effect was more than neutralised by an outburst from him moments after the conclusion of the judgment. The sheer force of this outburst made it inseparable from the morally charged judgment of which it was not a part. Gaining a fame and a notoriety that enshrined it in popular remembrance longer than the judgment proper, the outburst was sparked off when Dadaji's counsel, Vicaji, took exception to the award of costs to Rukhmabai. Referring to Pinhey's ruling that in Dadaji's case a suit for restitution of conjugal rights did not lie, Vicaji pleaded:

I submit to your lordship that this is not a case in which the plaintiff should be ordered to pay costs He has been acting under advice of counsel who considered the suit would lie

After the inconsistencies and lies in the evidence for the plaintiff, revealing the despicability of those among whom he was being asked to despatch Rukhmabai, this for Pinhey was the last straw. He had done well, in the judgment, to limit the expression of his displeasure about Dadaji and his collaborators to the false evidence tendered by them. But he was ill-prepared for an appeal in the name of the plaintiff's innocence. It brought forth the wrath that had been welling up since the week-end:

When the plaintiff found that the young lady was unwilling to share his home, he should not have tried to recover her person, as if she had been a horse or a bullock (*The Times of India*, September 25, 1985).

II

Pinhey's judgment immediately aroused diametrically opposed reactions. It was for some a bold declaration of the Indian woman's right to personal freedom and dignity. For others it was an assault on the sanctity and integrity of Hindu marriage and family that threatened to turn the whole society upside down. The more perceptive among the latter realised the urgency of challenging the judgment to seek its reversal. The prospect of appeal worried the former; They did not want the charter Pinhey had given Indian women to be aborted.

The result in the Dadaji Bhikaji vs Rukhmabai case was now a subject of contentious social debate. No longer two anonymous litigants, the wife and the husband now emblemised the opposing socio-cultural divisions which their private dispute had helped sharpen.[8] It would henceforth concern these opposing forces, as much as the individual litigants, to seek a resolution favourable from their point of view, no matter how prolonged or expensive the litigation became.[9]

What Pinhey's verdict provoked was a 'war in discussion'. (*Native Opinion*, April 11, 1887). This was not simply a 'civil war', one in which antagonistic positions were taken by different groups in Indian society with regard to the conception of a desirable Hindu/Indian order and the modalities of achieving it. It was also a cultural war between the rulers and the ruled in which the two sought to distinguish their social institutions, ideals and values from those of the other to proclaim their own superiority. It soon developed, in the parlance of our own day, into a well-organised semiotic war.

The Times of India was the first to comment on the verdict, one of the most laudatory. Its remarks set the pattern, generally, for the discussion of the case in the Anglo-Indian press. In a flattering editorial the following day, the Bombay daily described the judgment as 'the embodiment of righteousness and common sense'. Offering in touching terms a brief account of Rukhmabai's tragic life, it referred to the letters of 'A Hindu Lady' – though maintaining the mystery of the pseudonym – to remark that she

never dreamt of a harder case than this when she told us that the evil custom of infant marriage had destroyed the whole happiness of her own life in a pitiable manner.

Happily Justice Pinhey "declined to allow the law to be made an instrument of torture". "He showed", the paper continued, "that a suit of this kind was a creation of the English law, which was intended to refer only to persons of mature age, who accepted the responsibilities of marriage with their eyes open". "There was", moreover, "no authority in English law to support a case like this, and his lordship did not wish to extend the law further". He also said that there was "nothing more barbarous than to compel a young lady to go to a person whom she disliked".

The Times of India saw in the judgment 'a shrewd blow at the whole system of infant marriage' that could not 'fail to have a most wholesome influence in the direction of reform':

With the use of a little firmness and common sense. Mr Justice Pinhey has, in the course of a morning's work, probably done more for the amelioration of the wretched condition of Indian womanhood than has ever yet been accomplished. (*The Times of India*, September 22, 1885).

The celebration of Pinhey's verdict overpitched its moral righteousness. Comparatively little attention was paid to its foundation in law. This was to an extent unavoidable in view of the resounding moralism of the verdict. But there was something in the cultural arrogance of the average Englishman and woman in India and England which ensured that certain significant aspects of the verdict were relegated to the zone of their cognitive blindness. Thus, *The Times of India* justified the English law of restitution of conjugal rights in terms of the obligation of mature men and women to honour responsibilities they had accepted with open eyes. It overlooked Pinhey's lament that a law which had long been discredited, and recently changed, in England, still operated in India. Similarly, Pinhey's assertion that restitution suits were alien to Hindu law was ignored as if it had not been made at all.

This is reflected even more sharply in an editorial as *The Times of India* stayed with Pinhey's verdict for the second consecutive day. Humanising the verdict, as it were, almost to the point of denuding it of any legality, the paper commented:

Mr Justice Pinhey has decided that a young girl married in her twelfth year, and without any consent of her own to a man unable to maintain her and in a feeble state of health could not ten years afterwards, when she had arrived at years of discretion, be forced to live with him.

Having secured both law and morality on the side of the English - and oblivious to the denunciation of the British Indian legal machinery that the following, italicised praise for Pinhey's verdict implied - *The Times of*

India proceeded to attack Hindu laws and society:

> The Hindu marriage laws are as unjust as they are unnatural. But a distinct step in advance has been gained by Mr Justice Pinhey's decision... And *for the first time*, so far as we remember, in India, the law distinctly refuses to be made the instrument of this personal degradation. (italics added, *The Times of India*, September 23, 1885).

Now that an English judge had struck for social reform and a brave Indian girl, inspired by English ideas and example, had stood up 'to vindicate the rights of Indian womanhood', it was for the Indian reformers to build on these gains. For if utilised properly the agitation commenced by the Rukhmabai case could produce 'very far-reaching consequences'. Their responsibility was particularly grave, the paper warned, in view of the plaintiff's rumoured intention to appeal (*The Times of India*, September 25, 1885).

This was the general pattern of reporting on the case in the Anglo-Indian press. This was so partly because of the wide reliance on *The Times of India*'s coverage of the case, because the city's other leading daily, *Bombay Gazette*, was lukewarm about it.[10] More important than that, there was an overall similarity in the Anglo-Indians' stance with respect to the country of their temporary domicile.

Thus, despite local professional rivalry, the *Bombay Guardian* reacted to the case in a manner not distinguishable from that of *The Times of India*. It claimed, unjustifiably that for years it had been 'singular' in its opinion that the government should "recognise nothing as marriage in which the marrying parties were not of marriageable age, and in which they did not voluntarily make the compact". Someone was needed to 'break the ice', and Pinhey had done just that. Of course, this could not have been possible without Rukhmabai's refusal "to be sacrificed". In taking "this noble stand", the *Guardian* wrote, "she has very ably fought the battle, not for herself merely, but for the millions of her sisters."[11]

In far-away Allahabad the *Pioneer* was quick to grasp that the problem lay in "the awkward grafting of our English marriage laws upon a Hindu marriage system to which they were never intended to apply". But, betraying the typical Anglo-Indian lack of receptivity to those portions of Pinhey's judgment that related to the English and Hindu laws with respect to restitution of conjugal rights, it could see nothing wrong with the English and right with the Hindu laws. It regretted that the unfortunate grafting had made English laws an instrument to compel English judges in India to "give legal sanction to some of the glaring iniquities of Hindu customs". Luckily Pinhey's 'far-reaching and most salutary decision' had shown a way out of the awkward situation. It had 'legally' established that "a girl whose marriage has gone no further than a formal ceremony in her infancy cannot in after-years be compelled against her will to accept the position of a wife".

The *Pioneer*, too, exhorted the Indian reformers, anxious to remove the abuses of their marriage customs, to make use of Pinhey's verdict. Explaining how the judgment could yield 'a great deal', the paper worked out its logic:

> The next step would be to establish the argument that a woman who cannot be compelled by law to accept the position of a wife is not a wife in the legal sense, and that, therefore, should her so-called husband die, she cannot become a widow. This position, once established by law, would have enormous effect upon the evils of Hindu womanhood. The force of the baneful custom is almost entirely owing to the claims which infant marriages give to family property. But, unless the law recognises the marriage, the claims to property would be valueless, and thus the one great incentive to infant marriages would be removed.

Further, trusting that the reformers would not 'overlook the importance of this simple argument', the *Pioneer* advised them to "take every means to secure that Justice Pinhey's decision shall be upheld, and subsequently carried to its logical conclusion."[12]

Coming from the powerful Anglo-Indian press, especially the *Pioneer* with its virtual position as an official organ, the advice to Indian reformers revealed an all too glib reliance on the rhetoric of moral-cultural superiority. The reformers could well have turned Pinhey's judgment to their advantage if it became a precedent for future judicial decisions. But while its validity hung in the balance, they could hardly have done more than their self-righteous declaimants to prevent its reversal. Malabari, the great crusader for the cause of Indian women whose stakes in the Rukhmabai case could not have been lower than those of the Anglo-Indian declaimants, understood this when he wrote as he anxiously awaited the outcome of the appeal against the Pinhey verdict:

> It is lucky for Rukhmabai that she has counsels like Messrs Inverarity and Telang. The latter, who has his whole heart in the business, may be trusted to do all he can for her But it is hard to see what can be done, unless the final Court of Appeal refuses to recognise unconsummated infant marriages (*Indian Spectator*, March 6, 1887)

Farther off in Lahore, the *Civil and Military Gazette*, second to none in imperial pride, saw eye to eye with *The Times of India* to the extent of being close to plagiarism. There was one difference, however. While drawing freely upon the comments and reports of its Bombay contemporary, occasionally employing the same words even, the *Gazette* was aggressively revelling in its tone about Hindu laws and customs, indeed about the very character of the Hindus. Displaying the other side of English humour – by no means uncommon in contemporary Anglo-Indian writing, especially when it was directed at India and Indians – the Lahore daily tended to employ for effect exaggeration rather than understatement. Assuming an air of high neutrality and seeming not to be sparing Pinhey either, it wrote:

> Whatever may be Mr Justice Pinhey's shortcomings, in the matter of jealous Hindoos who bite off the noses of their mistresses, it cannot be denied that he has most notably helped forward the cause of social reform...

With gleeful sarcasm the *Gazette* then described how the stepdaughter of a "well known native doctor in Bombay was married, at the mature age of eleven years, to a man suffering from symptoms of consumption, and unable to support her...". Not failing to mention the bit about the barbarity of compelling a young lady, the *Gazette* continued:[13]

> The idea of establishing any comparison between the marriage of an English man and woman of mature years, and two native children of *nineteen* and eleven, would strike most people as preposterous (emphasis added).

Yet again, true to the pattern, there is in these spirited comments not a trace of comprehension of Pinhey's criticism of English and appreciation of Hindu laws on the subject. The *Civil and Military Gazette* rivalled *The Times of India* in undermining the legal basis of Pinhey's verdict. For example, it wrote. "From the evidence it appeared that the present plaintiff was not able to maintain his wife; and a decree was accordingly given for the defendant with costs" (*Civil and Military Gazette*, September 30, 1885).

That the Anglo-Indian response with regard to this case should be similar seemed but natural to the *Indian Daily News*. Owned by a merchant and tending to cover business and sports more than politics, the *News* was a sober Anglo-Indian daily. "European sympathy", it wrote, "is naturally on the side of the Judge's decision". Providing proper salience to Pinhey's admonition that a woman was not a horse or a bullock, and quoting verbatim his stirring refusal to do something 'barbarous', the *News* found the verdict 'thoroughly' in accord with 'European notions of justice and equity'. It added its own precious commentary: "It is abhorrent to European ideas that a girl bound as a child, before she could possibly exercise any personal choice in the matter, to a man whom she grows up to detest, should be forced to go and live with that man".

Unlike its Anglo-Indian contemporaries, however, the *News* was sympathetically

inclined towards the husband as well. It wrote:

> But the fact can scarcely be conveniently put out of sight that the man also has a grievance. He is saddled with a wife who is not a wife . not in the sense that she is a burden upon him . but in the sense that she is still legally his wife. Mr Justice Pinhey's judgment, though it debars him from access to his wife, does not sever the marriage tie. So if the young wife is a victim of the unfortunate marriage custom of the country, the husband is only a degree less a victim.

With its exceptional ability to empathise, the *Indian Daily News* was quick to infer: "The case points very clearly to the necessity for legislative interference in the matter of infant marriage" [14] But even the *News* could see in the judgment little besides the triumph of 'European notions of justice and equity'.

The whole stress in the Anglo-Indian reading of Pinhey's verdict was on the oppressive social system of the colonised and on the possibilities of changing it that, in a morning's work, an English judge had opened for those among the colonised who cared to reform their society. It is not that these papers literally blacked out those portions of the judgment that castigated the English legal practice imported into India and emphasised the non-admissibility of restitution suits in Hindu law. The blacking out was more imperceptible. It occurred in the act of reading

It was a reading that celebrated Pinhey's judgment, but without grasping his analysis of developments in India and England that gave him the strength to deliver such a judgment. It could come up to the point of highlighting his ruling that in India a suit for restitution of conjugal rights was 'a creation of the English law'; but without facing the inference that the rulers who created the law could not escape responsibility therefore.

The entire blame, in this reading, rested with Hindu laws and customs. So complete was the imagined contrast between the English and native sensibilities that, in the face of palpable evidence to the contrary, it was believed that Pinhey's verdict had no supporters among Indians. The very logic that prompted the English, to hail the verdict led them to assume that the natives would be hostile to it.

III

Precisely those reasons that caused the Anglo-Indians to celebrate Pinhey's judgment impelled sections of Hindus/Indians to condemn it strongly. What the *Pioneer* called the 'simple argument' of the judgment appeared to these Hindus/Indians as the thin end of the wedge. Beginning with a questioning of the traditional customs of marriage, they feared, it would destroy the foundations of Hindu/Indian society. The initial, and main, opposition, however, came from among the Hindus as they were most directly affected by the judgment.

Hostile reactions to Rukhmabai and to Pinhey's verdict came from all over the country. The earliest and, perhaps, the best argued critique appeared in the *Native Opinion*. This Anglo-Marathi weekly from Bombay was controlled by Vishwanath Narayan Mandlik (1833-89), a leading authority on shastric and Anglo-Hindu laws. His long introduction to the *Vyavahar Mayukha*, which he translated into English, and the scholarly appendices at its end, bear witness to his understanding of shastric and customary laws.[15] Often considered an arch reactionary – in the Rukhmabai case controversy he unabashedly stood behind Dadaji – Mandlik was, in fact, not opposed to social reform *per se*. Living in a subject country, however, he believed in the primacy of political reform.[16] Moreover, as against social legislation, he favoured the idea of 'reform from within'. For this we have the testimony of Narayan Ganesh Chandavarkar (1855-1923) who, as editor of the progressive Anglo-Marathi weekly *Indu Prakash*, was locked in a running battle with Mandlik during the Rukhmabai case, as also on numerous other occasions.[17] Behramji Malabari (1853-1912), the great crusader of Indian women's cause who had made Rukhmabai's case his own, thought otherwise. 'Mr Mandlik's career', he wrote, 'is known to have been devoid of every liberal sentiment.'[18] We have little reason to disbelieve Chandavarkar. But during the Rukhmabai controversy – which is when Malabari assailed Mandlik – the *Native Opinion* wrote as if determined to prove Malabari right.

Those who viewed Pinhey's verdict as a threat to their domestic and social life ignored its legal base even more than did those who welcomed it as an occasion for self-laudation. Their anxiety, in fact, was aggravated by the ways in which the judgment was projected in the Anglo-Indian press. The verdict was also, to an extent, designedly misconstrued. But it was a misconstruction for which many Hindus were predisposed; it did not strain their credulity. Ironically enough, even these Hindus missed the respect for their law that was implicit in Pinhey's ruling that suits for restitution of conjugal rights, only recently discredited in England, were unknown to Hindu law. What worried them was the fear of socio-cultural subversion following the judge's refusal to force a Hindu woman to cohabit with her husband.

The *Native Opinion*, in a powerful indictment, declared that the verdict, 'to say the least of it', involved 'a revolution in the marital laws of Hindus'. It was 'entirely subversive of the principles that have governed society for ages'. 'Apart from the merits of the particular case', the weekly warned:

> this decision is calculated to alarm the Hindu community, who have all along been under the impression, and very justly so, that their marital relations were to be governed by their own ancient laws whose protection was secured to them by legislative enactment and by the decisions of the Highest Courts in India and in England. We think that the Hon'ble Judge in departing from that law has fallen into the error of mistaking his functions, ... Mr Justice Pinhey has tried to legislate and not to interpret existing laws; and when a judge attempts to do so then there is an end to all stability. The single decision of Mr Justice Pinhey will convulse the whole community. Husbands and wives would be deprived of all their rights under the Hindu Law and Mr Justice Pinhey will have done all this in the Court-house and not in the Council-chamber.

If the concluding sentences in the excerpt sound like rebutting *The Times of India*'s exultation about a momentous morning's work by Pinhey, the *Native Opinion* was, indeed, reacting to its Anglo-Indian 'brother'.

The *Opinion* disputed Pinhey's propositions – calling them 'serious inaccuracies' – "that a suit of this kind was a creature of English law, and that there was no decision on this point". "Suits for restitution of conjugal rights", it rebutted, "have often been brought in Indian courts and those courts have often given relief to the plaintiff-husbands". These 'Indian decisions' showed 'conclusively' that such suits were "founded upon the Hindu and the Muhamadan Laws which, nobody can deny, are peculiarly Indian". It was, in fact, 'taken as settled beyond all dispute' that the 'Hindu Law authorities' recognised such claims.

There were decisions in which the Calcutta and Bombay High Courts had, under the Hindu law, granted, 'as well against grown up as against minor wives', the kind of relief prayed for by Dadaji. The pointed reference to minor wives was designed to take care of Rukhmabai's argument that she had been married when she was incapable of giving intelligent consent. These decisions, the *Opinion* added, had issued from judges like "Justice Couch, Melvill, West, and Mitter, men who, it must be allowed, know Hindu law and custom at least as well, if not better than the Hon'ble Mr Justice Pinhey".

This appeal to established judicial authority was capped, appropriately enough, by a reference to the privy council, the highest judicial tribunal for colonial India. This related to the Moonshee Buzloor Ruheem vs Shumsoonissa Begum case, which was to prove a decisive authority in favour of Dadaji at the appellate stage in his case. This was a Muslim case in which a man had inveigled a rich widow with five children into marrying him six months after the death of her first husband. They lived together for some years, during which time the man managed fraudulently to make away with a great part

of his wife's fortune. He then commenced to ill-use her, virtually making her a prisoner in the house. Following magisterial intervention, she quit the husband's roof, with bare clothes on her back, and took up separate residence. Meanwhile she obtained a decree of five lakh rupees against the man. At this stage he brought a case of restitution of conjugal rights against her. His pleader argued that the case must be decided according to Muslim law, which did not permit a wife to separate from her husband, except upon a divorce; cruelty being no ground for the court to set aside the Muslim law.

The *Native Opinion*, significantly, spared its readers all these crucial details and quickly moved on to the privy council after quoting briefly from the Calcutta High Court judgment. Because of the pivotal role of this case in the disposal of the issue raised by Pinhey, and also because it helps us locate him within a certain juridic genealogy, we may follow the high court verdict in greater detail than did the *Opinion*. The judges, C Steer and W S Seton-Karr, observed:[19]

> Are we to compel the Defendant to return to her Husband, convinced as we are that she should not be forced to return? If under the Mahomedan Law no Wife can separate herself from her Husband under any circumstances whatsoever, the law is clearly repugnant to natural justice The Mahomedan Law giving no relief to a Wife, be the conduct of the Husband ever so bad, it is a case to be disposed of by equity, and good conscience And on these principles, we have no hesitation in saying, that the grounds upon which the Defendant has separated from her Husband justify her in that step, and that we should be making the Court the engine of a grievous injustice, if we gave the Plaintiff free power and control over the person of the Defendant, by ordering her to return to him.

The *Native Opinion* demonstrated how, in overruling this verdict, the privy council had enunciated the guiding principles of the 'policy of the law in British India'. This policy forbade the disposal of certain categories of cases in accordance with equity and good conscience: 'i e, according to what the judge may think the principles of natural justice require to be done in the particular case'. Instead, the privy council directed that:

> in suits regarding marriage and caste, and all religious usages and institutions, the Mahomedan Laws with respect to the Mahomedans and the Hindu Laws with regard to the Hindus are to be considered as the general rules by which Judges are to form their decisions...

The *Opinion* further quoted with relish the privy council's strictures against the high court, maintaining that nothing was:

> more likely to give just alarm to the Mahomedan community than to learn by a judicial decision that their law, the application of which has thus been secured to them, is to be overridden upon a question which so materially concerns their domestic relations.

"We can safely say", the weekly charged, "that the decision of Mr Justice Pinhey is calculated to do what the Privy Council have so solemnly deprecated".

It further countered Pinhey's position about restitution suits being a creation of the British in India with the assertion that formerly also, 'when there were no courts like the present', claims for restitution of conjugal rights were recognised by Hindu law authorities. To these authorities, which consisted of caste heads, deserted 'Hindu husbands always carried their complaints', and the 'authorities always compelled the wives to go and live with their husbands'. (strikingly enough, husbands alone are mentioned in this context.)[20]

On the question of how the traditional authorities enforced their decisions, however, the forthright Hindu weekly suddenly became vague. Instead of specifying the penalties, it wrote that these were 'at least as effectual in their effects as imprisonment'. The quaint tautology of 'effectual in their effects' apart, the invocation of traditional legal procedure carried an oblique disapproval of imprisonment for contumacy in restitution cases, a punishment which was a gift of the British.

The *Native Opinion* faulted Pinhey also on the merits of the case. It assumed, as did so many others, that the judge's 'mind was swayed by the fact that the defendant was married when a minor'. From that assumption it drew the inference that the judge must, therefore, have considered the marriage of Dadaji and Rukhmabai invalid. Perhaps realising the effect the argument would have on people for whom gods and goddesses were more than mere mythological figures, it pointed out that 'Hindu gods are married when they are minors'; and mischievously added: 'the Hindu Law does not give them any relief on that ground.' This done, it asked with a flourish: 'The question is, granting that the defendant was a minor when married, as all Hindu wives are, was it a valid marriage or not?' It proffered the decisive answer: 'If it was a valid marriage, and according to Hindu Law it indisputably was, the right of the husband in this case admits of no dispute.'

With concerns exactly the opposite of the *Pioneer*'s, the *Opinion* dreaded the 'monstrous' consequences that would follow if marriages contracted during minority were declared invalid. Of several such consequences, it mentioned only one: 'the right of maintenance of wives and widows would be rendered null and void'. A consummation such as this, it wrote sarcastically, might not appear 'sufficiently alarming' to 'certain persons'. "But" it harangued, "a judge must deal with the whole country and its people and not with a few people who may perhaps not be afraid to see the fabric of their society turned topsy-turvy all at once."

The weekly admitted that the judge had neither accepted the issue of poverty nor referred to the husband's state of health. But it shrewdly related the two issues to the question of the wife's dislike of her husband. Pinhey, we will recall, had admitted with injudicious candour his abhorrence for forcing a woman into the arms of a husband she disliked. But he had found in law an escape from what seemed to him an immoral course. The wife's dislike was no ground for his verdict. *The Native Opinion*, however, treated the moral impulse behind Pinhey's judgment as its legal rationale. It ascribed Rukhmabai's dislike for Dadaji to his poverty and poor health, the sole grounds on which – so the weekly insisted – she had refused to live with him. It twisted the argument about 'dislike' to contend that Pinhey had given his verdict because of the husband's straitened circumstances and other extra-judicial considerations:

> Now as to the allegation of the husband's ability to maintain, we are glad the Judge does not hold that the poverty of the husband was a good answer to resist his claim. The inability to maintain is a relative term and can be used in almost every case. What may be competence to one may be poverty to another, and if such an indefinite definition were held good in such suits society would be sorely disarranged. With regard to dislike we may remark that there is only one case in which a wife can resist her husband's claim to conjugal rights and that is in the case of cruelty which involved danger or fear of danger to her person by the violence of the husband.. We think the learned Judge completely misunderstood the law on the subject, like or dislike having nothing to do with the matter .we cannot but think that Pinhey was influenced by considerations other than judicial

As for considerations other than judicial, the orthodox weekly mocked Pinhey's sense of moral outrage so as to deny him even the courage to defy law in the service of justice and conscience. Pinhey, it contended, had 'committed a grave error', and it dramatised the implications of the error in a way that would appeal to the conservative instincts of its readers:[21]

> His decision in fact amounts to saying that any Hindu wife might any day refuse to go to her husband. It is according to him enough if she says that she dislikes him. The learned Judge does not seem to have seen the consequences of his judgment. It goes to the root of the marital tie and is entirely subversive of the principles that have governed society for ages.

These implications could arguably be teased out of Pinhey's judgment. The *Native Opinion*, in any case, was confident enough of the correctness of its analysis to predict

that, if appealed, the judgment stood little chance of being stayed. Nonetheless, its was an alarmist analysis; one produced by an anxiety about the very survival of cherished values and institutions. Hence, the note of panic and the resultant inclusion of issues that should have been ignored as irrelevant in view of Pinhey's verdict, e g, poverty and ill-health, if not dislike as well. In this state of anxious excitement, it was difficult to realise that the critical distinction between the restitution and the institution of conjugal rights, as made by Pinhey, did not necessarily imply questioning the validity of marriages performed before years of discretion. The distinction was intended as a justification for not extending the application of a discredited alien legal practice.

That, in spite of the judge's intention, the distinction admitted of being interpreted as subversive of the Hindu custom of infant and early marriage, is evident from the similarity on this point in the triumphant Anglo-Indian and the alarmist Hindu views of it. This interpretation – so powerful was its hold – survived powerful arguments to the contrary from Latham and Telang before the appellate court.

Representing the fears and ruffled feelings of sections of Hindus, and backing its demolition of Pinhey's judgment with impressive legal erudition, the *Native Opinion* set the pattern for those opposed to Rukhmabai and Pinhey. Alarm was the dominant feeling in this response. Alarm got the better of whatever confusion there was about the verdict; and it also submerged the occasional admission of the humanitarian dimensions of the case and the verdict. This is exemplified by the *Mahratta*, an Anglo-Marathi weekly that appeared from Poona under the guidance of Lokamanya Balgangadhar Tilak (1856-1920), then fast emerging as a nationalist leader with pronounced Hindu leanings and opposed to official interference in socio-religious affairs despite admitting the need for social reform.

Writing a fortnight after the *Native Opinion* had launched its attack, the *Mahratta* tied itself into knots; but without for a moment losing the clarity of its opposition to Pinhey's verdict. The Poona weekly was glad to see that the verdict had not 'commended itself to the majority of our Hindu brethren'. At the same time, it claimed to stand 'for reform', admitting that the verdict appealed to its 'humanity on social and religious grounds'. In the same sentence, a bare comma separating the two statements, it also added that it felt 'forced to condemn' the verdict. The reason: 'Mr Justice Pinhey has not understood the spirit of Hindu laws.' He had sought to introduce reforms 'by violent means', and endeared himself to 'a certain set of reformers' – obviously those whom the *Native Opinion* had accused of revelling in the topsy-turvying of their society.

The *Mahratta* substantiated its charge by ascribing to Pinhey the view that "among Hindus the performance of the marriage ceremony is merely a contract which might be set aside before consummation". With his 'knowledge of local customs', the learned judge should have known that: 'A Hindu marriage, once entered, can never be dissolved.' Instead, the *Mahratta* complained: "It is merely a principle of the English law, English custom that Mr Justice Pinhey had consulted in the present case".

We have seen that what Pinhey had done was to refuse to extend the application of an English legal practice. In spite of using the term 'contract' for both Hindu and English marriages – cf the *Mahratta*'s scrupulous use of entered, rather than contracted, for Hindu marriage – Pinhey never assumed that Hindu marriage was a bond that could be dissolved. If anything, he had invoked the Hindu law, and recalled with regret its supersession by the British Indian law courts in matters relating to restitution of conjugal rights. In fact, after lashing out at Pinhey for forgetting the fundamental point about the indissolubility of Hindu marriage, the *Mahratta* itself remarked: "The wife, then, may refuse to live with her husband, but for all that she is debarred from marrying another".

What else had Pinhey done? After all, the *Indian Daily News* had been quick to grasp something that made it sympathise with the husband as well, and call for a change in the existing law, i e, that Pinhey's decision had not disencumbered Dadaji because the marriage tie that bound him to Rukhmabai was beyond severance. At no stage in the litigation, it may be noted, did Rukhmabai's defence ever take the position that the rejection of Dadaji's plea for the restitution of his conjugal rights would bring her the freedom to enter into – or contract – a new marital relationship. She herself had no illusion in this regard. Such a freedom, she knew all too well, belonged exclusively to the husband, whether or not restitution was ordered.[22] The following from a letter of hers which appeared in the *London Times* merits perusal in this regard:

> .. a man can marry any number of wives at a time, or whenever he chooses to do so, keeping all of them with him, or driving away those for whom he does not care much; while a woman is wedded once for all. She cannot remarry even after the death of her first husband,[21] nor can she deny to live with him even on reasonable grounds.... Is it not inhuman that our Hindu men should have every liberty while women are tied on every hand for ever? (*Times*, April 9, 1887).

Instead of turning to the glaring sexual inequality of the traditional arrangements, the alarmist Hindu response spelt out the ominous consequences that Pinhey's verdict would have for women. The *Native Opinion* having indicated the threat to the 'Hindu wives' and widows' right to maintenance, the *Mahratta* quoted the following elaboration of part of the same point from the *Indian Nation* of Calcutta:

> Where a man possessed of property has married a girl of eight or nine, and died before consummation of marriage, it would be dangerous to hold that the infant widow was not entitled to her husband's property, because the marriage-contract had not been completed.

More and more Hindu critics of Pinhey stressed the risk posed by his verdict to the rights of Hindu wives in general, not just widows. For, the denial of the rights – indeed, the very status – of a wife on the ground of non-consummation of marriage could ensue even while the husband was alive. This argument assailed the verdict where it was supposed to be strongest. It sought to demonstrate that even in terms of humanitarianism, a plane at which the *Mahratta* itself sympathised with the verdict, Pinhey had harmed the interests of a whole class of hapless Hindu girls, those who had been married before the years of discretion and whose marriage had not been consummated.

Besides his humanitarianism, Pinhey's understanding of marriage as a contract also was attacked. The *Mahratta* mounted this offensive from an unlikely angle. It began by criticising the judge for having disregarded the authority of parents and guardians. It was Rukhmabai's legal guardians who 'had entered into the contract for her and on her behalf'; but the fact had received 'no consideration' from the judge. Giving its defence of traditional parental authority a sudden switch, the weekly directed the focus on hard material factors. Dadaji's family must have incurred on the marriage what in 'their poor circumstances' must have been 'a heavy expenditure'. Employing the language of contract with abandon, the *Mahratta* argued somewhat facetiously:

> If he cannot get his conjugal rights restored, so much money becomes a dead loss to him. Can he file a suit against the legal or natural guardians of his wife for compensation? If they are dead, are heirs made liable? If they are not, who is to reimburse him for the pecuniary loss which he has suffered?

Coming back to the status of Hindu marriages, now threatened by this verdict, the Poona weekly observed in a pragmatic tone:

> Infant marriages will not be discontinued in the space of a dozen years more. Are all the marriages that take place, in which the bride's age happens to be 11 or 12, or less, liable to the same construction?

It concluded with the hope that, because 'weighty considerations like these' had not found 'any weight with the learned Judge', 'a strong protest will be made all round

against the decision' (*Mahratta*, October 11, 1885).

The realism of the observation that infant marriages would not disappear within another dozen years may have been informed by a desire for their eventual disappearance. But the question about the validity of marriages effected when the brides were 11 or 12 belonged to a different class. It related to a crucial contemporary distinction between infant and early marriage, one in which only infant marriage was treated as undesirable Early marriage, on the contrary, was considered essential for the functioning of joint family, the linchpin of Hindu social organisation. Those who thought along these lines could not accept a verdict that seemed to question so pivotal a custom.

Among the first to relate Pinhey's judgment with the institution of joint family was an anonymous correspondent to an Anglo-Indian paper of Bombay. Observing that 'however justifiable it might be in equity', the judgment was 'certainly not so in law', he repeated the usual charges relating to the role of extra-judicial considerations, i e, poverty, ill-health and dislike; also that the judgment, even if 'chivalrous', was based on 'a misconception of the manners, customs, and usages obtaining in Hindoo society'. He continued (we may note the frequency with which the word 'Hindoo' recurs):

> . amongst the Hindoos the marriage of a woman after twelve is a very rare phenomenon. So the 'years of discretion' plea of the learned judge cannot hold good in the case of a Hindoo lady. What might seem good from an English point of view cannot certainly be adapted to the altered circumstances and peculiar constitution of Hindoo society. The joint family system in vogue amongst the Hindoos imposes certain restraints upon the social liberty of individual members of a Hindoo family, and the plaintiff's adherence to this traditional system should not interfere with his right to call his wife to live with him under the family roof.

The anonymous correspondent ended with a demand for 'rigorous action in the matter of infant marriages'.[24] He did so because, in his view, the necessity, for such action had been 'proved' by the Rukhmabai case (which did not involve infant marriage). This shows the loose logic that marked much of the debate on this case. This lack of rigour was shared by many of Rukhmabai's supporters also, though she herself was very clear that her tragedy was due to early rather than to infant marriage.

In addition to questioning the defensibility of the judgment from every possible point of view, not excluding its equity and humanitarianism, the critics of Pinhey and Rukhmabai had to grapple with the problem posed by the identification of the much acclaimed 'A Hindu Lady' as no other than Rukhmabai. For, however hard they tried to confine the controversy within the limits of abstract legalism, concrete humanitarian considerations kept obtruding irresistibly. And it made a difference if the victim was an accomplished and cultivated young lady.

The disclosure about the identity of 'A Hindu Lady' was first made by the *Bombay Guardian* in the course of commenting on Pinhey's judgment. However, *The Times of India*, which alone was supposed to know, chose to evade the issue. 'Whoever she may be', it said, the 'Lady' wanted her name to be kept secret (*The Times of India*, September 25, 1885). Rukhmabai's advisers may have calculated that it would be best to reveal the identity and harness the resultant sympathy when the lady, in the event of an appeal, was threatened with defeat rather than in the hour of an uncertain triumph. For the moment, consequently, the *Bombay Guardian*'s disclosure was no more than a rumour.

But for those aware of the subversive potential of the case and the verdict, this was a disconcerting rumour which needed to be squashed. As always in such situations, the first reaction was to deny its veracity. The man who quickly sensed danger and moved to counter it was K R Kirtikar, once a protege of Rukhmabai's stepfather, Sakharam Arjun, and now a hostile witness. Kirtikar spoke with the authority of one who knew Rukhmabai's family as an insider. In a letter to the *Bombay Gazette* he affirmed that, 'as far as I know' (and he professed to know a great deal), Pinhey's decision, 'legal or illegal, safe or dangerous', had 'no connection whatever' with the 'Hindu Lady' (*Bombay Gazette*, October 6, 1885).

IV

The *Civil and Military Gazette* saw in the alarmist Hindu response the true reflection of 'the native mind' on the issues involved in Pinhey's judgment. The *Bombay Gazette*, likewise, believed that the "native papers unanimously disapprove of the judgment of Mr Justice Pinhey in the case of Rukhmabai and her poor illiterate husband" (*Bombay Gazette*, October 5, 1885). This summed up the English feeling in this regard. The number of Indian journals that supported the judgment was admittedly small as compared to those which either opposed it strongly or displayed an ambivalent attitude. In terms of their visibility, however, the former were not the kind that could be missed easily. The explanation for the general English assessment of the Indian reaction, therefore, seems to lie more in the mode of English perception than in the reality of Indian reaction.

The most visible, and also the most determined, Indian supporter of the judgment was Malabari's *Indian Spectator*. However, owing to Malabari's absence from Bombay when Pinhey unexpectedly cut short the proceedings in the case and delivered his judgment, the first write-up in the *Spectator* turned out to be a masterpiece of vacillation rather than, what one would have expected, a passionate defence of the verdict. The writer, signing himself 'K', drew attention to the 'unconventional tone' of the judgment which, he was sure, would receive 'admiring plaudits' from 'our youthful reformers'. Even more, it would be 'consecrated by the Hindu girls of the period as their charter of emancipation from the thraldom of matrimonial slavery'. But for the more orthodox it would be 'a matter of very grave reflection'.

That 'K' identified himself among the orthodox is suggested at this point by the mock sarcasm with which he describes them as "those old-world people who still cling to the superstition that Hindu society is not after all the whited sepulchre as it appears to their latter day prophets". Still he could not shrug off the reformers' concerns and the women's pain. Joining issue with Pinhey, 'K' made with impressive succinctness a point that Vicaji, Dadaji's counsel, had somewhat struggled to argue before Pinhey. If the marriage between Dadaji and Rukhmabai was considered not consummated, it was so 'according to the English notion of that act'. He illustrated the point with a hypothetical scenario: "If the husband had died the next year, the girl would have been pronounced a widow by the Hindu and English law, and would have all her rights and privileges secured to her". "But", he continued, "the Fates reserved a better destiny for the fortunate girl, and, being well-connected and well-befriended, she ventured to take advantage of the general advancement of the time and emancipate herself from the prevailing ignorance, which is the badge of her sisterhood, by seeking the protection of the high court against the suit filed by her husband to compel her to live with him". 'This', 'K' stressed, 'cannot but redound to her credit'.

But, at the same time, 'K' interpreted Pinhey's judgment, with obvious anxiety, as establishing that a Hindu marriage – 'a solemn compact' to which the spouses plighted 'their faith before God and man' – could be legally broken. Condemning what seemed to him the basis of Pinhey's reasoning, he wrote:

> That gentleman had nothing to allege against the validity of the marriage according to the Hindu law, nor anything against the conduct of the husband towards his wife But because the wife was an enlightened woman and the husband an illiterate man, the kindhearted Judge had his imagination up in arms against the claims of the husband, and thinking that it would be like delivering up an ox or a bullock to a driver to order the woman to obey her husband, disallowed the claim and sent away the wife rejoicing.

The verdict, 'K' commented, did 'infinite credit to the Judge's heart', but not to his 'legal acumen'. A judge was 'always supposed to base his decisions on law'.

After this pious pronouncement, however, 'K' himself countered Pinhey's ruling with an extra-legal argument; an argument that was designed as a moral-cultural offensive. He alluded to Smollett's *Memoirs of a Lady of Quality* in which the second husband of a wayward lady rushes post-haste to consummate the marriage; and caustically added that, being illiterate, Dadaji did not have the advantage of such examples.[25] With this piece of sarcasm 'K' manoeuvred to implicate not only Pinhey's judgment but an entire people and their civilisation for whom, as he would have it, a physical act was the validating moment of something so sacrosanct as marriage. "In plain English", he wound up the argument, "the husband had not perpetrated 'a legalised rape' on his Hindu wife, and therefore an English Judge finds it in his wisdom to cut asunder the solemn connection of a holy wedlock".

Turning upside down the comment about equity and justice *vis-a-vis* law in the context of Pinhey's judgment, 'K' remarked: "Verily, if this is really a triumph of law, we doubt very much whether it would be considered a triumph of justice". Calling for strict adherence to law on the part of the judge, 'K' had appropriated justice for the cause of that Hindu orthodoxy with which he identified himself. And this after conceding that its humanitarianism was the one ground on which Pinhey's judgment appeared virtually unassailable.

'K' then referred to a case of restitution of conjugal rights which a Parsi woman had brought against her husband. The latter "demurred to the claim, on the ground, amongst others, that he had received a liberal education in India .. and had, moreover, gone to England, passed his examination, and joined the Medical Service of Government and that he was moving in a respectable educated society, for which his wife was not a fit companion". The case was decided against the wife by Justice Tucker on the ground of domicile, as the wife lived in Bombay while the husband was a resident of the mofussil. But, 'K' emphasised, with regard to the plea of educational incompatibility "the Judge was plain-spoken to a degree, and virtually told the husband that he was bringing education into discredit and disgrace by availing himself of such an excuse for putting away his legally married wife".

Having cited what he thought was an appropriate precedent, and assuming that a similar incompatibility was the basis of Rukhmabai's defence and of Pinhey's decision, 'K' concluded on a note completely opposite to the one with which he had begun. After reminding the reader that the case mentioned by him was between Parsis, he lamented:

> But in the present instance it is a Hindu wife who alleges the plea, and the benevolent quixotry of another Judge allows its validity Such is the glorious uncertainty of English law! (*Indian Spectator*, September 27, 1885).

This was, perhaps, the most articulate expression of a mind that oscillated between the extreme positions with both of which it seemed to sympathise. Others, too, felt drawn in opposite directions; at times without being quite aware of their own vacillations. For example, the *Kaiser-i-Hind*, a Gujarati weekly from Bombay, was happy that Pinhey had by his judgment dealt a severe blow at the objectionable Hindu practice of infant marriage. But it also dreaded the prospect that, 'swayed by personal motives', the millions of Hindu girls married in their infancy 'may with impunity break the sacred matrimonial bond' (excerpts, *The Times of India*, September 28, 1885).

The alarm caused about the stability of family and society, it would seem, was wider than the spread of the type of Indian papers that were unrelenting in their criticism of the verdict. The appreciation of the emancipatory potential of Pinhey's judicial mediation was not always untouched by an apprehension of the risks to which it exposed domestic and social relations. This dual realisation[26] did not result in cultural withdrawal. Hence the happiness about Rukhmabai's emergence from ignorance and the invocation of Justice Tucker's censure of attempts to abuse means of progress, like education, for selfish personal ends and socially corrosive purposes.

It is possible that those who betrayed ambiguity, moving uneasily between approval and anxiety, constituted a very large section of the society. And the number of those who were ambivalent in this way belies the contention that disapproval was the sole Indian reaction to Pinhey's decision.

There was a more emphatic repudiation of the Anglo-Indian view of the Hindu/Indian response. It came from Indians who yielded to none in supporting the verdict; and their support rested on a better perception of the rationale behind the verdict. The *Indian Spectator* led the Indian defence of Pinhey's judgment. With an expeditiousness that spoke of his sense of urgency, Malabari despatched a signed note – something he rarely did – which appeared in the paper in the very next issue after the one carrying 'K's' comments. Recording his 'entire' disagreement with 'K', and addressing him as a 'correspondent' in an effort to dissociate the *Indian Spectator* from his views, Malabari described the judgment as 'sound in equity and not inconsistent with common sense'. Coming from a master polemicist and ardent champion of Rukhmabai's cause, this looked lukewarm. But, handicapped by the unavailability of the text of the judgment in Punjab – perhaps relying on the report in the *Civil and Military Gazette* of September 30 which mixed excerpts from the judgment with comments thereon – Malabari must have been constrained by the need for discretion about the legality of the judgment.

He, rather, sought to salvage the situation by directing his attack on that 'mode of hunting down an unwilling wife' which in law was called restitution of conjugal rights. Prepared to concede, in theory, its legality in adult marriages, he considered its enforcement in cases of unconsummated infant marriage indefensible. In the absence of intelligent consent of the parties, these 'nominal' marriages were 'not binding even according to the Shastras'. Stressing the importance of consummation even from a shastric point of view, and borrowing an argument employed, as we shall see, by Raghunath Rao, Malabari observed: "The wife becomes of the same gotra, etc, with the husband after consummation".

Implicit in the description of infant marriages as nominal was a questioning of their validity. Malabari was going farther than Pinhey. He was actually doing what Pinhey never meant to do; the underlying logic of his judgment notwithstanding. Having questioned the validity of 'nominal' marriages, Malabari sensed his chance to strike at the related evil of enforced widowhood as well. Deriving from the shastras the conclusion that both the supporters and opponents of Pinhey were drawing from his verdict, he broached the issue: "It is a question whether she becomes widow according to the Shastras on the death of the nominal husband". He ended his note with the prayer: "I for one would devoutly pray that the judgment might be upheld on appeal, so as to remain a worthy precedent to open our eyes to the evils of the disastrous custom" (*Indian Spectator*, October 4, 1885).

In the same hurried despatch Malabari also mentioned, so fleetingly as to risk missing the reader's attention, what he would later develop into a powerful argument. Having described restitution of conjugal rights as 'hunting down an unwilling wife', he followed Pinhey to assert that this was an English practice. But owing to an error, which reflects the depth to which faith in the justice and humanity of the English had been internalised, what appeared in the *Indian Spectator* was the exact opposite. The sentence, instead, ran: "This mode of hunting down an unwilling wife is un-English". The compositor, we can imagine, could not possibly believe Malabari to mean 'English' in a context like this. It must have been an inadvertent slip on his part. And, as one taking pride in his thankless job and not doing it mindlessly, the compositor appears to have made the requisite correction, confident of earning the boss's gratitude for averting a politically embarrassing misprint. Little would he have expected to receive, rather, an explanatory correction for insertion in the following week's issue. It read:

In my paragraph on the Hindu lady's case, please read English for un-English. What I mean is that a barbaric relic of English law should not influence the administration of Indian laws (*Indian Spectator*, October 11, 1885).

Malabari's correction exuded a confidence that was missing in the previous week's misprinted reference to English law. There was reason for the confidence. Still without the text of Pinhey's judgment when he sent, from Amritsar on October 5, the correction and his second despatch on the case, Malabari had received a comforting opinion from an Englishman who had spent "nearly 20 years in India, both as Judge of a Presidency High Court, as well as a legal practitioner". The judgment, this 'highly respected English lawyer' believed, was 'sound and irreversible morally as well as legally'; even if it was not 'so exhaustive from the latter point of view'.

As against Malabari, who was nervously praying that the judgment be upheld, his English authority hoped that the rumour of appeal was not without foundation: "for the appeal will serve to keep up public interest in the question, and at the same time be the means of informing the public more fully on the subject" The appeal, he predicted, would "undoubtedly be dismissed on the ground that it is not, in fact or in law, a suit for restitution of conjugal rights, but a suit for specific performance of a marriage contract". He explicated his argument:

Now a mercantile or other contract may, as a general rule of law, be specifically enforced; in other words, a party injured by breach of a contract has his option to claim damages for the non-performance of it; or he may proceed to enforce the fulfilment of its terms in specie But a marriage contract (being a contract *sui generis*) cannot be enforced specifically. Such is the invariable law of England, British India, America – in short, of every civilised nation (*Indian Spectator*, October 11, 1885)

Never in doubt about its morality, and now reassured about the legal strength of the case, Malabari was soon in his element as he sprang to defend Rukhmabai with full force. Combining his appeal to the shastras with an invocation of civilised laws in general, he developed the argument about the nominality of infant marriages to mount an offensive. It was 'distressing', he began, that Rukhmabai should be described by 'generally intelligent public writers' as the plaintiff's wife, because:

.. the most essential part of the ceremony, according to the Hindu and all other civilised marriage laws, the consent of the parties, having been wanting, Rukhmabai is less the plaintiff's wife than I am his first cousin.

The mocking start soon developed into a moral outrage which resonated of Pinhey's outburst, especially the one relating to horses and bullocks:

It would not perhaps be so wrong if our conservative friends described the connection as slave and slave-owner. In that capacity they might insist upon the slave being driven home to the owner, or rather the owner's uncle,[27] to be suffocated, dismembered and offered up on the altar of Custom.

As if realising, at the height of this burning rage, his own helplessness to alleviate the sufferings he saw all around, sufferings that Rukhmabai appeared to embody so much the more for the threat to her legal victory, Malabari cried from the depth of his heart:

Just fancy the little rebel delivered into the hands of Dadaji Bhikhaji, his uncles, aunts, sisters and cousins. It makes one's blood curdle only to think of the outrage. If I had a child in that predicament, I would far rather she died before my eyes

This is not a propagandist's hyperbole. What he had seen, since his own sad childhood, of the cheerless existence of daughters-in-law in the joint families of the day, was reason enough for Malabari to fear for the little rebel.[28] Hence, the allusion to the combine of uncles, aunts, sisters and cousins who often made life more miserable for the woman than did her husband. Besides, he well knew the sinister Narayan Dhurmaji who headed the household in which, if ordered by the law court, Rukhmabai would be required to live.

Malabari wasted no sympathy in dealing with those whom he called orthodox Hindus. For them he had only ridicule and anger. He preferred to meet them on their own ground. He joined issue with a 'usually sensible and impartial' writer who had chided Rukhmabai, as Malabari characteristically put it, 'for disowning her husband in name' because he had become poor and diseased. This 'preacher' had waxed eloquent on 'the wifely sacrifices' of Damayanti, and advised Rukhmabai to follow the example of her famed mythological progenitor. A man of faith, Malabari confessed that he was a great admirer of Damayanti and believed her story to be true. "But", he countered, "we cannot expect every Hindu girl to be a Damayanti in this Kali-yuga." He did not, in saying this, derogate the Hindu women of his day.[29] Rather, he turned the argument against the orthodox and the system they upheld:

For, they are never tired of assuring us that Manu and the other wise law-makers ordained the present rigid injustice against women, because they knew women would be dangerous enemies of society in the Kali-yuga, if treated like human beings.

The problem, Malabari countered, was not that the quality of womanhood had declined over the centuries, but that the system of injustice had produced results contrary to those expected of it. Pointing to the contrast between Rukhmabai and her 'ancient prototype', he dilated on the differential working of the two systems:

Damayanti accepted the husband of her choice, when she was old enough to exercise her judgment. Rukhmabai never lived with her husband since the sham marriage, did not know him, had no opportunity of studying his character. Damayanti became Nala Raja's wife, in fact, loved him with a woman's whole love.. . Rukhmabai's nominal husband is said to have gone to the bad, ruining his mind and body for ever ....

"What right", in a situation like this, "have we, as honest observers, to ask Rukhmabai to follow the example of Damayanti?" Malabari answered the question with a warning: "But even if worse came to the worst, no law or authority can make Damayantis of nominal Hindu wives".

He followed this up with his favourite strategy of reversing the case to expose the role of gender in this systemic injustice; a strategy that Rukhmabai also used effectively in the letters of 'A Hindu Lady'. He invited his readers to suppose that, instead of her husband, Rukhmabai 'herself had turned out incurably diseased and unacceptable', and completed the scenario:

What would the husband and his friends have done? Why, they would have discarded the wife like a burnt stick, and supplanted her with one or more new wives

They were galled because, for once, the wife had the best of the bargain; though they should have remembered that even this was 'a bargain struck without her knowledge or consent'. Because she, and not the husband, was educated and endowed with a little fortune, it seemed essential to bring her under.

Bolstered as it was by a structure of traditionally transmitted values with their ultimate sanction in religion, the system of injustice was oppressive enough on its own. What the adversaries of Rukhmabai were attempting was to 'put the machinery of law into motion' in order to 'smother her religiously'. Taking exception to such utilisation of law, Malabari wrote with angry disdain: "How pious and chivalrous they are who sermonise upon the story of Nala Damayanti!"

Knowing, as he did, the intimate details of the dispute and the actants therein, Malabari let it be known to his readers that the prime villain in the case was not Rukhmabai's husband. The 'discredited husband', he believed, was urged, 'against his wishes, to destroy her life's happiness.' The man who invisibly directed this murky drama was Dadaji's uncle, a vicious man whom Rukhmabai 'naturally dreads with a mortal dread'.

Assured by the English authority of the soundness of Rukhmabai's case, and still praying 'hourly' that Pinhey's judgment was upheld and 'dignified into a salutary

precedent', Malabari discovered yet another ground for optimism. 'At any rate', he told himself and others, "I trust that no Englishman will be guilty of betraying the poor lamb into what may prove perhaps worse than a slaughter-house" (*Indian Spectator*, November 1, 1885).

In less than six months the fate of these and opposite prayers, hopes and expectations was provisionally settled when the appellate court set aside Pinhey's verdict. The law of British India took another year after that to order Rukhmabai to go to her husband or else face the risk of imprisonment for six months.[30] The brave young woman let it be known, at a time when passive resistance and satyagraha lay away in future, that she would rather submit herself to the maximum penalty admissible under the law than obey the court's verdict. Even the viceroy was rattled. "I hope", he wired his law member, "you are keeping your eye on the Rukhmabai case. It will never do to allow her to be put into prison".[31] And organised Hindu orthodoxy considered it discreet to hail the court's verdict as a vindication of Hindu marriage; afraid of Rukhmabai's martyrdom, it advised Dadaji not to press for her imprisonment on ground of contumacy.

The battle that had begun with Pinhey's judgment was this time renewed with aggravated stridency. But that is a later phase of this social drama with which we cannot deal here. Clearly, the society was deeply divided over a woman's awareness and assertion of the inviolability of her person. Even before the drama had unfolded fully, the *Bombay Chronicle* had predicted a serious clash of opposing social forces. While its Anglo-Indian 'brothers' continued to believe that the Indian reaction was one of opposition to Pinhey's verdict, the *Chronicle* expected 'strong forces' to be 'arrayed on the different sides' so that:[32]

> The battle will be one of tremendous consequences to the social institution of the Hindus, and will draw in the arena of the fight some of the best intellects of the race.

What we need to remember is that in this battle some of the finest orthodox Hindu intellects stood behind Rukhmabai and supported Pinhey's judgment in her favour. In the appellate court Telang's entire defence of Rukhmabai rested on an exegesis of Hindu law. The self-consciously conservative Hindu in him had grasped the profound socio-cultural significance of this case, and he was keen to offer through his defence of Rukhmabai what he thought was the true Hindu law with regard to conjugal relations.

Similarly, Dewan Bahadur R Raghunath Rao, whose orthodoxy no one could have had the hardihood to question, offered a shastric defence that even Pinhey, despite his conviction that the kind of suit filed by Dadaji did not lie in Hindu law, could not have anticipated. Radicalising the very conception of Hindu marriage, the Dewan Bahadur argued: "As in all contracts, so in a Hindu marriage contract are consent and consummation the requisite elements". Hindu law, he contended, prohibited consummation during the first three days of the marriage. The bride became of the bridegroom's *gotra*, *pinda* and *sutaka* – and this was his decisive evidence – after 'actual personal consummation on the fourth night or thereafter' (*Indu Prakash*, October 26, 1885).

This was a powerful argument that anticipated, and neutralised, the most obvious and common argument against Pinhey's judgment; which was that in imagining consummation as essential to the institution of conjugal rights, he had brought in an alien notion and disregarded the fact that the rights of the husband and the wife were complete the moment the Hindu marriage ceremony was performed.

It is true that, both in terms of general acceptance by the caste Hindu society and the view taken by the higher British Indian judiciary, the progressive exegesis of Hindu law and practice offered by the likes of Telang and Raghunath Rao lost out to reactionary and constricted intepretations. That, however, cannot be a reason for taking the latter as the real Hindu law and practice. Which is what the ruling people's view of the Rukhmabai case generally tended to be after Pinhey's judgment was set aside. In a characteristic fit of collective superiority and resultant blindness for inconvenient details, the very people who had earlier celebrated Pinhey's verdict now sympathised with the judges, all Englishmen, who reversed that verdict. These helpless judges, it was now maintained, 'unhappily, had no alternative', bound as they were by their *oath to administer the Hindoo laws'* (emphasis added).[33] Suddenly, and completely, they forgot Pinhey's categorical demonstration of two crucial facts: that such restitution suits did not lie in Hindu law; and that what the courts administered in such cases was a discredited English law.

Such, ironically, is the hold of the belief in the progressive role of the colonial legal mediation in India, that in our own day, too, Rukhmabai continues to be seen as a victim of Hindu law. This is neither to debunk the colonial legal mediation *per se*, nor to idealise Hindu law. Both need to be problematised. For it was the misogyny of Hindu socio-domestic reality buttressed by the misogyny of English jurisprudence that created the situation in which Rukhmabai struck for her rights as a person and offered herself as a martyr to the cause of her Indian sisters. A detailed analysis of the rival arguments in her case, the conflicting judicial decisions, and the wide spectrum of public responses in India and England offers a chance to critique, in terms of what they did to/for women, the deadly dialectic of the 'traditional' socio-cultural and the colonial legal systems.[34]

Notes

[This paper is based on parts of a book-length study of the Rukhmabai case. Tentatively titled *The Brutal Embrace: The Debate on a Woman's Rights in Colonial India*, the first draft of the study is over. Of the many debts incurred during this study, I particularly wish to acknowledge two here. Research for this work in England was made possible by the Charles Wallace (India) Trust, and in India mainly by the Indian Council of Historical Research. To these organisations, and to R E Cavaliero and Irfan Habib who facilitated these grants, I am immensely grateful.]

1 'A Hindu lady' was no other than Rukhmabai. This was her second letter on the subject, the first one having appeared on June 26, 1885. The timing of the letter was clearly meant to coincide with the hearing in the case, and it seems to have had the desired effect on Pinhey. The editor of *The Times of India* at this time was Henry Curwen. A man with some literary pretensions and a grandson of Wordsworth, Curwen was taking personal interest in Rukhmabai's case.

2 57 L J 9 P and D

3 See Douglas M Ford, *Matrimonial Law and the Guardianship of Infants*, London, 1888, pp 53-56

4 Olive M Stone has pointed out that because in comparison to men it was more difficult for women in England to obtain divorce under the Divorce Act of 1857, they were tempted to use the Matrimonial Causes Act of 1884 as a less cumbersome route to separation and/or divorce. See *Family Law. An Account of the Law of Domestic Relations in England and Wales*, London, 1977, p 122.

5 For Pinhey's judgment and proceedings in the case, see *The Indian Law Reports*, Bombay Series, Vol IX, pp 529-35

6 See Lawrence Stone, *Road to Divorce: England 1530-1987*, Oxford, 1992, pp 368-69, also Roderick Phillips, *Untying the Knot. A Short History of Divorce*, Cambridge, 1991, pp 127-28

7 See *The Indian Law Reports*, Bombay Series, Vol IX, pp 529-35.

8 While Rukhmabai was from the outset conscious of the larger issues in this case, even Dadaji, it may be noted, presented himself in his *Exposition*, as one fighting for the sanctity of Hindu marriage and family. For example, he wrote: "If religious pledges are to go for nothing, then where does morality begin? It is both a precept and a divine law to the Hindus that it is a wicked and an undutiful act on the part of girls or women to form matrimonial connections without the consent of their parents or relatives. ... Non-Hindus do not understand this matter; it has formed no part of their religious training; but to a Hindu it is at once conscience, reason, and religion. No censure which non-Hindus may apply to the system, no ridicule which they can throw upon it, can change the faith in this doctrine of the Hindu who values his religion. The true Hindu will suffer martyrdom for it. I appeal with boldness to all my co-religionists, for they alone can understand my feelings and the power of the doctrine which I have endeavoured to explain." (p 10).

9 The 'orthodox party' in Bombay collected funds and offered considerable assistance to Dadaji soon after Pinhey's judgment so that

he could appeal against it. This move was master-minded by V N Mandlik who secured a one-line appeal for funds from Dadaji and circulated it among the circle of his friends. See Ganesh Ramkrishna Havaldar, *Rao Saheb Vishwanath Narayan Mandlik Yanche Charitra* (in Marathi), Mumbai, 1927, Vol II, pp 860-61.

10 *Bombay Gazette*, October 5, 6, 1885 In 1887, following appeal against Pinhey's verdict, when Rukhmabai was threatened with the prospect of imprisonment because of her refusal to obey the court's verdict, the *Gazette* became one of her most powerful supporters.

11 *Bombay Guardian*, excerpted in *The Times of India*, September 28, 1885 and in *Civil and Military Gazette*, October 12, 1885.

12 *Pioneer*, reproduced in *Civil and Military Gazette*, October 2, 1885.

13 *Civil and Military Gazette*, September 28, 1885. Rukhmabai was the stepdaughter of Sakharam Arjun.

14 *Indian Daily News*, September 29, 1885, *The Times of India*, October 2, 1885, reproduced this from the *News*

15 V N Mandlik, *Vyavahar Mayukha or Hindu-Law*, New Delhi (reprint), 1982. First published in 1880. Founded by him in 1864, the *Native Opinion* continued to be edited by Mandlik until 1871 His influence over the weekly, however, never waned It was particularly marked during the Rukhmabai case controversy

16 Noticing Telang's now famous lecture, 'Must Social Reform Precede Political Reform', Mandlik noted with satisfaction " the learned lecturer tried to show that though reform may be necessary in social matters as well as in our political situation, it is the political reform to which our energies should be directed in the first instance "And further: ". . the lecturer's conclusion is the one which we had arrived at when this journal was started and which was adopted and has been adhered to as the governing policy of this paper", *Native Opinion*, February 28, 1886.

17 Ganesh L Chandavarkar, *A Wrestling Soul: Story of the Life of Sir Narayan Chandavarkar*, Bombay, nd, pp 79-80.

18 *Indian Spectator*, December 18, 1887 Referring to the Madhavbag meeting where, under Mandlik's chairmanship, a rabidly anti-social reform position was taken, and even the sober Telang was shouted down, the *Spectator* wrote: "The sin of the Madhavbag meeting will stick to this aged pleader, and he will have to account for it to a higher tribunal than to the public of Bombay We would never have said a word against him even in this connection had he acted from conviction; but we must decline to believe that a man of Mr Mandlik's intelligence could conscientiously favour the views emitted at that meeting of illiterate Banias and Bhattias."

19 11 *Moore's Indian Appeals*, 558-61.

20 This assertion was placed in its proper perspective by Latham and Telang, especially the latter, when they defended Rukhmabai in the appellate court. I have discussed this briefly in my 'Whose Laws?. Notes on a Legitimising Myth of the Colonial Indian State', *Studies in History*, 8, 2, ns (1992), pp 192-94, *passim*

21 *Native Opinion*, September 27, 1885. The fear of subversion is further reflected in the *Opinion's* angry outburst, in its issue of October 11, 1885, against the *Sind Times* for taking a favourable view of Pinhey's judgment: 'Why not seek to establish a system of divorce instead?'

22 To the extent it continues to be remembered, and as part of an Indian feminist consciousness that is discovering its illustrious genealogy, the Rukhmabai case remains more of an unresearched legend. As invariably happens in such situations, the facts and the significance of the case, and the role of certain characters involved therein, tend to be overstated. Thus, in the inaugural issue of the *Indian Journal of Gender Studies* (January-June 1994) which, appropriately enough, opens with a paper on the 19th century triumvirate of Pandita Ramabai, Rukhmabai, and Anandibai Joshi, Meera Kosambi describes the Rukhmabai case as the first ever divorce case in India She also tells us that, following a compromise verdict in the case, Rukhmabai's marriage with Dadaji was dissolved. It was not a divorce case and the marriage was never dissolved. For, as Rukhmabai herself put it with unconcealed anguish – as Latham had earlier done before the appellate court – the Hindu woman, once married, was tied for life Marriage for her, in Malabari's burning phrase, meant a 'brutal embrace'. Similarly, keeping up a tradition in which Pinhey's judgment was generally misunderstood by its supporters as well as critics, Kosambi says that an 'additional argument' employed by the judge was that Rukhmabai's 'marriage had been performed in her childhood and without her choice'

23 Here Rukhmabai is getting carried away, if she is not making a polemical point She could not possibly have forgotten the marriage of her own widowed mother with Sakharam Arjun.

24 Reproduced in *Civil and Military Gazette*. October 6, 1885 Just to get an idea of rhetorical differentiation in the articulation of the same point, we may consider the following from this letter: "The poor and the rich are equal in the eye of the law, and the mere facts of the failing health of the plaintiff and his inability to maintain his wife on a liberal scale, incommensurate with his limited resources, certainly do not deprive him of his rights ..the mere dismissal of the plaint on grounds of poverty and sickness of the plaintiff, and the dislike of the lady for her husband, is likely to produce mischievous results in future. Hence the judgment, if not reversed on appeal, will set up a mischievous precedent for other proud aristocratic ladies to desert their husbands because they are poor."

25 'K' seems to have forgotten the exact details of the story he was referring to The lady was an innocent wench of 15 when her first husband insisted on making love to her after they had run away to a remote place Afraid that irate with their 'stolen' marriage, the lady's father would track them down, the husband was obviously in no mood to oblige his father-in-law with any chances. As the protagonist-narrator put it:

> .. the bridegroom gave me to understand, that there was a necessity for our being bedded immediately, in order to render the marriage binding, lest my father should discover and part us before consummation I pleaded hard for a respite till the evening, objecting to the indecency of going to bed before noon; but he found means to invalidate all my arguments . (Tobias Smollett, *The Adventures of Peregrine Pickle*, London, 1930, Vol II, p 41)

26 *Gujarati*, an Anglo-Gujarati weekly started in 1880 to champion the cause of Hindu orthodoxy, observed that Pinhey's 'revolutionary' judgment was a double-edged weapon.

27 This refers to Narayan Dhurmaji, Dadaji's maternal uncle and an unscrupulous manipulator, who had master-minded the very idea of litigation.

28 Here is a random reading list for those who wish to be acquainted with contemporary accounts of the existential reality within the Hindu joint family. The list includes fiction, diary and reminiscences. G M Tripathi, *Sarasvatichandra* (the four volumes of this first major novel in Gujarati came out between 1887 and 1901), Mumbai, 1985; Kantilal C Pandya and others (eds), *Govardhanram Madhavram Tripathi's Scrap Book*, Bombay, 3 vols, 1957, 1959, *Ranade: His Wife's Reminiscences*, English translation (from Marathi) by Kusumavati Deshpande, New Delhi, 1969; Hari Narayan Apte, *Pan Lakshyant Kon Gheto* (Marathi novel which appeared in 1890), Hindi translation, entitled *Kaun Dhyan Deta Hai* by Srinivas Kochkar, New Delhi, 1961 I have discussed this in my *The Oppressive Present: Literature and Social Consciousness in Colonial India*, New Delhi, 1992 (reprint 1994), pp 74-82.

29 Malabari is exceptional in the turn he gave to the argument about 'Kali-yuga'. Usually the argument rested on an initial admission of the degeneration that had come about in the character of women, as of men, so that they were no longer capable of living up to the ideals of old For example, even the most committed advocates of widow marriage argued that since Hindu women were unable to lead a life of austerity and celibacy after losing their husbands, and often fell into evil ways, causing such problems as foeticide and infanticide, it was much better to let them have the option of remarriage. This is precisely the logic why the *Parashar Samhita*, with its less rigorous code of conduct, is considered the authoritative shastric text for Kali-yuga

30 In the paper cited above Meera Kosambi says that 'notice was served on Rakhmabai to join her husband or undergo six months' imprisonment". What the judge, Farran, did was to order Rukhmabai to 'go or return' – the wording took care of Dadaji's prayer for the institution or restitution of his conjugal rights – to her husband's house within one month and inform the court accordingly. There was no mention, and legally could not have been, of the punishment that might follow, if the husband so petitioned, on ground of contumacy No such notice was ever served. Apart from the organised Hindu orthodoxy's anxiety not to make Rukhmabai a martyr, her influential Indian and European friends and supporters, who had formed the Rukhmabai Defence Committee with a view to taking her case to the Privy Council, had pre-empted the possibility of her imprisonment by taking the case once again to the appellate bench in appeal against Farran's order

31 *Home Department, Judicial Proceedings*, June 1887, Nos 189-92 (National Archives of India).

32 *Bombay Gazette*, excerpted in *The Times of India*, September 28, 1885

33 Taking its cue from the London *Times*, the *Queen*, a leading women's magazine wrote this in its issue of March 19, 1887, after Justice Farran, in deference to the appellate court's reversal of Pinhey's verdict, had ordered Rukhmabai to go to her husband

34 May I leave the reader here with the assurance that *The Brutal Embrace* seeks, among other things, to provide a narrative that critiques both.

Urban Local Government in Pakistan

Expecting Too Much from Too Little?

S Akbar Zaidi

This paper examines the developmentalist performance of urban local government in Pakistan and shows how, over time, democratically elected local governments have been made impotent by democratically elected members to the higher, provincial and national assemblies. While extensive legislation exists which could permit the effective role of local government in development, severe financial constraints faced by these governments have meant that they are no longer involved in the process of development. Unless substantial structural measures are taken, in which the role of local government is redefined, it is unlikely that development at the local level will take place.

THE cliche-ridden 'new world order' is said to have had its beginnings in the mid-1980s following Michail Gorbachev's 'perestroika' in the then Soviet Union, finding its crystallisation with the fall of the Berlin wall in 1989. It is the triumph of the west and the 'end of history', in which we are told, the 'new age' is one of the free man and woman, unencumbered by domination by the state, and freedom of choice and action are now set to dominate economic and political thinking [Banuri 1991; Zaman 1993; Zaidi 1994a, 1994b]. This is the era in which the neo-liberal synthesis has found its expression in economics and politics. Market-friendliness, privatisation, deregulation, devolution and democracy, are now the key cliches which form the mix (and fix) for societies which were hitherto deviant form the norm adhered to in the west. With the demise of the bipolar world, the unipolar world now sees itself as an elongated extension of the west to the non-west. The measuring rod for success and achievement is now the ability to ape developed western countries in order to make development 'sustainable' [Zaman 1993]. Governance, democracy and devolution form a critical union to make development sustainable and are said to manifest the key prerequisites for progress [Leftwich 1993].

With the breakdown of the command economies of the former Soviet regime and its allies, devolution of control and power has been seen as means for greater participation of people and hence progress [Zaidi 1994a]. Today huge centralised government machineries which were deemed competent and capable of delivering on promises to their people have floundered. The new thinking has shifted away from the central and federal governments' role in developing the economy and society and has begun to incorporate the private sector and non-governmental organisations as important key actors in development strategies. Furthermore, the need for less bureaucracy, more efficient and timely delivery of services, and closer and more direct access to the beneficiaries of development related projects, have also been important considerations in this shift in thinking and strategy. Not only has there been a move away from the role and control of government – the withering-away-of-the-state thesis – there has also been a noticeable shift *within* government structures. There is agreement now that strong centralised states are out of tune with the reality on the ground, and thus there has been a growing need and demand for more active participation and hence *devolution*. The controlling federal/central state has been forced to extend more powers to smaller units at the provincial, district, and local levels so as to enable these units to play an active role in providing welfare to the people. More autonomy has been granted to provincial and state governments, and local municipal government has also been expected to play an increasingly prominent role. While the world climate has been the critical factor in causing this shift of emphasis [Zaidi 1994a], the economic constraints faced by many, if not most, underdeveloped countries, have helped accentuate this shift. Many third world governments find themselves in dire financial straits and are forced to cut public expenditure in order to cut the budget deficit and restructure their economies. Structural adjustment is the single most important phrase which acts as a metaphor for the state of the economy in most underdeveloped countries [Zaidi 1994b]. Budget cuts – an essential ingredient of any structural adjustment programme – have meant that central/federal governments have had fewer funds to make available to lower echelons in the hierarchy. Thus, provincial and local governments which were dependent on the state have now had to become more disciplined financially and have seen their grants and aid cut. It is this dual shift – a resource constraint faced by the federal government, and the belief that more participation and devolution of power and control leads to better, more effective, and sustainable development – that has brought local governments into the forum of development planning.

How and where can urban local governments in Pakistan play a prominent role in development, and why are they, given their existing structure, failures at doing so?

Structure of Local Municipal Government[1]

Pakistan is a federation in which the affairs of government are guided by the Constitution of Pakistan of 1973, with all amendments. In the constitution the allocations of the functions of the federal and provincial governments are clearly specified. There are some functions which are the exclusive responsibility of the federal government, while others according to the constitution can either be performed by the federal or by provincial governments. The existence of local governments is not formally embodied in the constitution. Local governments in Pakistan exist under the supervision of the various provincial governments, where provincial governments have merely delegated some of their functions and responsibilities to local governments by the promulgations of ordinances. The Local Government Ordinance of 1979, with its amendments, is in operation in Punjab, Sindh and the NWFP, while Baluchistan's local governments are under the 1980 ordinance. These ordinances specify the allocation of residuary functions of local governments [AERC 1990b].

Before we briefly examine the history of local governments in Pakistan, and then turn to the existing statutory, organisational, and managerial structure of municipal local governments, it is important to emphasise the point that at present elected local governments exist only in the sparsely populated province of Baluchistan. Other local governments stand dissolved. In the NWFP, all local bodies were dissolved in 1991, in Sindh in 1992, and in the Punjab in August 1993 Different reasons exist as to why the provincial governments dissolved the local governments in their own provinces. In the case of NWFP, mismanagement and corruption were cited as reasons, while the Punjab provincial government dissolved its local governments in order to ensure that national elections held in October 1993 were not influenced by incumbent local government officials. Thus, in the absence of democratically elected local government officials in the rural and urban areas, town

committees, municipal committees, and municipal corporations are all being run by administrators who are members of either the federal or provincial public (civil) service cadre. Administrators are appointed by the provincial government and are transferred between different posts for unspecified duration of tenure.

Brief History of Local Governments in Pakistan[2]

Local governments have existed in the Indian subcontinent for many centuries, with the first municipal corporation set up in Madras in 1688 by the East India Company. In 1842, the Conservancy Act which lead to the formation of sanitary committees for garbage disposal became the first formal measure of municipal organisation which applied to the Bengal presidency. In Karachi, the board of conservancy was established in 1846, while in Lahore and Rawalpindi, the Municipal Act was passed in 1867. Subsequently, Lord Ripon's resolution on local self-government in 1882 allowed for the provision of some elected members in municipal committees and proposed the establishment of rural local governments. The 1907 Decentralisation Commission recommended the appointment of non-official chairman of municipal committees, a recommendation which was endorsed and extended further by the 1925 Simon Commission set up to assess the performance of local self-government. The 1935 Government of India Act allowed provincial autonomy and permitted provinces to frame legislation on local government systems.

In 1947 the areas that constituted Pakistan had few developed systems of local government, and they were confined mainly to the Punjab. Wherever local government existed, it was not based on adult franchise, and the agenda and budget were under severe bureaucratic control in which the deputy commissioner played a critical role in determining policy. The period 1958 to 1969, which saw Pakistan's first martial law and military government, also saw the development of an extensive *elected* system of local government. The military government after disbanding the provincial and national governments realised that there was a need for at least a semblance of involvement of the people in their own affairs. This gave rise to the basic democracies system which set up a new local government system across the country through which members were elected.

The basic democracies system was seen as a substitute for universal suffrage where it served as an electoral college to elect the president and the assemblies. However, with the fall of the Ayub Khan regime with which it was closely associated, it fell into disfavour. Besides, the first general elections of 1970 and the separation of the then East Pakistan from Pakistan resulted in the formation of an altogether new system of government in the country. Ironically though, the proposed elections to be held under the People's Local Government Ordinance of 1975, promulgated by Pakistan's first democratically elected government to elect town and municipal committees (as well as councils in the rural area), were never held.

If the first martial law government was the pioneer in devising an extensive system of local governments, it was the second martial law regime of General Zia which implemented the principle of elected local governments, which were revived in 1979 under the provincial local government ordinances, which, with amendments, are still in operation in Pakistan. Elections for local councillors have been held on a non-party basis in 1979, 1983 and 1987.

The period since 1985 has seen four general elections held in Pakistan in which the people were asked to choose members of the provincial and national assemblies. In the absence of elected assemblies, local governments were the only popularly elected bodies and thus played important political and developmentalist roles. After the election of senators and members of the provincial and national assemblies, the role of local governments has been substantially marginalised. These elected representatives have taken over some functions which local governments used to perform. Specific federal and provincial level programmes, which were directed at elected provincial and federal members of parliament, such as the Five-Point Programme of the Junejo government (1985-1988), the People's Programme of the first Benazir Bhutto government, and other such programmes, have in many ways intervened in the evolution of proper and improved local government. Under the abovenamed programmes, elected members of provincial and national assemblies were given considerable funds which they could use for development projects, largely on their own discretion, in their political constituency. This has severely undermined the role local governments have been playing, and can play, in the development of particular (local) areas and regions. Furthermore, the fact that the elected principle of local bodies has been in abeyance, reflects on the attitude of elected and non-elected government officials. There seems to be an inherent conflict of interest between different tiers of government, in which local governments, because they are assumed to be the most expendable, have borne the brunt.

An analysis of the attitude of different leaders and their governments towards local governments shows that those governments which were more autocratic – Ayub Khan and Zia ul-Haq – did more for participation at the local level than have democratic governments. Military dictators needed to legitimise their existence at some level, and they used local bodies for this purpose. Further, ironically, local governments performed far better as local governments under the dictators than they have otherwise. In fact, it seems that democratically elected national and provincial members of parliament recognise this fact and have subverted the participatory process at the lowest level. There is a further irony in the fact that a large number of those who have been elected as members of the national and provincial governments emerged as politicians in local body elections.

Legislative Provisions of Municipal Governments

The Local Government Ordinance specifies two sets of functions to be performed by municipal governments. The differentiation between the two sets is between compulsory and optional functions. For the most part, most of the sets of functions for local governments in different provinces are more or less the same. There is further differentiation between functions of a regulatory nature and those that relate to the provision of services.

For the three larger provinces, a common list for all urban councils containing compulsory and optional functions exists. Thus town committees, municipal committees, municipal corporations and metropolitan corporations are supposed to perform the same functions. Due to the lower extent of urbanisation in Baluchistan, a smaller list of functions exists for town committees. Municipal governments are responsible for the provision of sanitation, the removal and collection of garbage, the provision of water supply and drainage and sewerage, and other town planning and town developing activities, all of which are part of their compulsory functions. The establishment of educational institutions is also a compulsory activity. Amongst the optional functions which municipal governments could perform which could affect development are the following: the establishment of child and maternity health centres; the establishment of hospitals and dispensaries; some additional general provisions for education; the maintenance of gardens and parks; and the establishment of social welfare institutions.

Municipal status is primarily a function of population. Urban settlements with populations ranging from 5,000 to 30,000 are generally designated as town committees. Municipal committees have populations up to 2,50,000. Cities beyond that size and provincial capital have either municipal or metropolitan corporation status. Property tax rating areas generally extend to the municipal committees and the larger town committees. The status of local government functionaries is directly correlated with the municipal status of the particular jurisdiction. At present there are two metropolitan corporations, 12 municipal corporations, 146 municipal

committees, and 336 town committees functioning in Pakistan.

In urban areas the four types of municipal committees have organisational setups which are more or less similar across the provinces. Despite the fact that urban union councils, from the town committee to the municipal corporations, may be one-hundredth the size of the larger corporations, there are very clear similarities in organisational structure. There are always three sections or departments comprising general administration, finance, and engineering Town committees have just these three departments which grow in size and qualitative specialisation as the size of the urban area increases, i e, when it is represented by a municipal committee or corporation. Municipal committees and corporations are also very similar in the nature of their organisational structure, and both have two additional departments, viz, education and health. Furthermore, the accounts department consists of two separate units, one for finance and the other for taxation.

The two metropolitan corporations of Lahore (pop five million) and Karachi (pop 10 million) by virtue of their size have much more diverse and extensive organisational structures. For example, given the extensive nature of types of works which are to be performed in metropolitan areas, there is a need for additional departments which perform specialised functions pertaining to legal affairs, land management and development, etc The larger municipal corporations in the country, along with the two metropolitan corporations, also have development authorities functioning as parallel organisations within the cities. However, while the urban local councils perform more service related functions, the development authorities are more involved with engineering works and with urban and town planning as well as traffic related issues [AERC 1993].

Municipal Finances

The entire revenue of all local governments – rural and urban – form a mere 5 per cent of revenue generated by the different tiers of government, with the federal government earning close to 89 per cent and the remaining being generated by the provincial governments Over time, the share of revenue generated by local governments has been rising, albeit marginally, while that of provincial governments has fallen. The local governments have collectively been able to show a better fiscal effort in terms of tax and non-tax revenue generation in the last 10 years. Nevertheless, as a share of all revenues generated the contribution of local governments is very small [see AERC 1990a, 1990b, 1991, 1992a, 1992b].

As far as expenditure is concerned, local governments spend only about 4 per cent of the total expenditure of all forms of government in the country. This relative amount has fallen over the last decade. As far as recurring expenditure is concerned, local governments spend a much larger share on establishment costs, as 10 per cent of all expenditure on general administration in the country is by local governments. Of the recurring expenditure on the social services in the country, provincial governments spend the largest share since education and health are provincial concerns. Local governments contribute 10 per cent to the establishment costs of social services [AERC 1990b, 1992b].

Over time the federal government has shifted its contribution on the development side to the provincial and local governments, hence causing both to contribute more over the last 10 years. Thus, in 1979-80 provincial governments were incurring a share in total development expenditure in the country of about 18 per cent; this rose to 29 per cent in 1985-86. Similarly, in the same period local governments increased their share from 3 per cent to about 6 per cent [AERC 1990b, 1991; Ghaus and Pasha 1994]. However, at present, given the resource constraint faced by all tiers of government, many local governments have been forced to put a moratorium on all development related projects [Zaidi 1994a].

Since local governments come under the jurisdiction of provincial governments, their right to levy taxes is also subject to the directives of the latter. Local governments assist the provincial governments in the collection of revenue, and thus provincial governments have delegated the right of the collection of a vast number of taxes to local governments, as indicated in the Local Government Ordinance of 1979.

Resource Base of Municipal Governments[3]

The Local Government Ordinance prescribes the various sources of revenue to which local governments have access. As a whole, in urban areas taxes form about 60 per cent of revenue, while the remainder accrues from non-tax sources. The single source of revenue for urban councils is the octroi tax which accounts for in excess of 50 per cent of revenue. This is more significant for larger corporations, while the share falls as the size of the urban council decreases This pattern is not unexpected, since this is based on goods being brought into council areas. In highly developed areas with a larger consumer base, and in areas producing industrial goods, more goods are imported and consumed, hence the higher share of the tax.

Property related taxes, such as the urban immovable property tax and the tax on the transfer of property, constitute the next largest source of revenue, together about 10 per cent. Again, property related taxes yield higher revenues in the larger cities such as metropolitan and municipal corporations. The smaller urban councils depend on non-tax receipts more than do the larger councils. Licences, fees and other non-tax receipts constitute a far greater share in smaller towns/cities than in large ones.

The octroi tax, which forms the largest single source of revenue of all urban local governments, is imposed on all goods imported into the municipal limits whether goods are consumed by households or used in industry. Octroi posts exist at all the entry points in a city. Up until a few years ago, local governments had their own staff in the taxation department collect this tax, but now

the tax is collected by contractors who bid in an open auction. A certain minimum amount is pledged by these contractors who reap the benefits above the guaranteed minimum. There are 18 classes of articles on which the tax is levied, with more than 225 taxable items in all. Rates vary from city to city, but in general there is not much variation amongst cities. Rates on food items vary less than on non-food items. Smaller cities have a larger food share in their octroi composition, while in larger cities the octroi is more broad based.

The urban immovable property tax is collected from all land and buildings within the municipal area which have been declared as rating areas and is paid by the owners of these properties. The tax imposed on such property is the actual annual rent in the case of buildings which are rented, and estimated rent in owner-occupied dwellings. The annual rental value is determined by estimating the gross annual rent at which such land or building can be let. The tax then calculated on this property is derived by making an allowance of up to 20 per cent of the gross annual rent for furnishing and 10 per cent for repairs. For those buildings which house their owners, similar rented dwellings are used as proxies. Legislative regulations require properties to be reassessed every five years. However, the last reassessment in the NWFP was in 1982, in which a minimal 5-10 per cent increase in value was undertaken, while urban property was reassessed in Baluchistan in 1985. In the province of Sindh the last actual assessment of property was made 25 years ago, in 1968.

The only tax levied by both urban and rural councils is the tax on transfer of property, which is levied at the time of sale of immovable property. The assessment is based on the total value of the property at the time of the transfer.

The water rate is a tax levied by urban local governments in the form of a user charge, but the rate is not dependent on the level of consumption of water and is in almost all, especially domestic, cases charged as a flat rate, or as an estimate based on plot size or rental value. This is especially so in the case of municipal and town committees, while larger corporations link the water rate to ferrule size. Water rates are often not increased as there is a fear that there will be political reaction against such measures. Only 40 per cent of urban councils increased their rates in the 1980s. On average, the increase in rates has been of the order of almost 60 per cent. Since very few urban local councils have been able to increase their rates, and with the substantially increasing costs to finance water supply schemes, the result has been that the costs in provision of water have outstripped the revenue being generated by the water rate. Because of this, local governments have not even been able to generate funds to cover their (increasing) operation and maintenance costs. The average for recovery of recurring cost is less than 50 per cent. The reasons recovery is so low is the existing very low rates on water usage, fixed or constant rates which are not commensurate with size, and the low collection efficiency on water rates [AERC 1990b, 1992b, 1993].

At present almost 70 per cent of the revenue collected by urban councils accrues from private contractors – essentially because of octroi. The process of privatisation of taxes began in the late 1970s essentially to stop evasion and corruption and to cut the cost of salaries and other expenses of the taxation staff. The taxes which have been privatised are considered to be relatively simple to administer with little scope for discretion in assessment of tax liabilities, and exist in those areas where, due to the possibility of evasion and corruption, intensive supervision would be required [AERC 1990b].

Development in Pakistan

Almost all individuals, whether they are in a position to implement policies – such as government officials, academics, etc – or mere lay people, would agree on the need for programmes developed by government. What they may debate about is the extent and manner of that involvement. How much should be spent and where should it be concentrated, in what area and what nature of service provided? Some would argue that the general welfare of the state, the nation, the economy and society, would affect the general welfare of the inhabitants. The proponents of this view would emphasise higher growth, better management of the economy, adherence to structural adjustment programmes, and the like, and would subsequently hope that the fruits of growth filter down in the form of specific developmental factors where indicators would, or should, show an improvement. Such has been the thinking for most of the post-second world war period up to the end of the decade of the 1980s [Zaidi 1994b].

There can be little doubt that the economies of the world have grown at impressive rates since second world war. Progress, growth and development are clearly evident. The absolute levels of poverty have in general fallen. And so on. But there are also disturbing trends where not enough has been done, especially for the more vulnerable groups, whether they be men, women or children. Pakistan is a case in point.

Pakistan's economy has shown substantial growth of 6 per cent per annum for more than 40 years, with a GNP per capita of $ 400 today. At the same time, the under-five mortality rate has fallen from 221 to 137 since 1960, the IMR has fallen from 137 to 95, and the adult literacy rate is around 30 per cent. Over time there have been noticeable improvements, but despite these broad indications which show positive trends, the rates have been markedly slow concerning other important areas [UNDP 1994; World Bank 1992; UNICEF 1994].

The population growth rate is amongst the highest in the world at 3.1 per cent. Life expectancy is only 59 years, an average which is bettered by poorer countries. The literacy rate has grown only marginally in the last 15 years, with only 37 per cent children of school-going age enrolled in schools. The drop-out rate is close to 50 per cent. Furthermore, as much as a quarter of the population of children has low birth weight, and a very high percentage (40) of children below the age of four are classified as moderately or severely underweight. Statistics regarding social services only endorse this pattern of suffering and inadequate reach: only 45 per cent of the rural population, which accounts for 70 per cent of the country's population, has access to safe drinking water, only 10 per cent has access to adequate sanitation and sewerage. While the unavailability of water and sanitation only compounds the problem of poverty and disease, the fact that only 35 per cent of the rural population has access to health services exacerbates the situation manifold [UNDP 1994; World Bank 1992; UNICEF 1994].

Some more indicators regarding social development – or underdevelopment – would highlight further concerns. Female literacy, one of the most important indicators which reveals the status of a family, and especially that of children, is only 14 per cent. Worse still, in the province of Sindh the rural female literacy rate is 4 per cent, while in the province of Baluchistan it is only 1 per cent. With such poor levels of female literacy, a large number of supplementary indicators also suffer Thus, despite some indicators of growth – the high and consistent growth rate of the economy, a growing GNP per capita – there is little real evidence that the people of this country have improved their social welfare. The fruits of development have not really filtered down.

The response to this failure has paved the way for the need for direct intervention. Now at least donor agencies are arguing for specific, highly focused, programmes which cater to the explicit needs of a target group, whether they are women, children, or rural populations. In this regard, the most accessible and lowest tier of government, local government, can play (and in some cases does play) critical roles. Let us now examine the contribution of local government to development [also see Zaidi 1991].

Development and Municipal Government in Pakistan

The overall analysis of municipal governments regarding the provision of all services suggests a number of conclusions.

First, almost all urban councils have more or less restricted their role exclusively to the performance of some (or all) compulsory functions This is true for larger urban centres, for in smaller towns and cities the financial and institutional capabilities of the councils restrict even the performance of compulsory functions In these cases, it is the provincial government which intervenes and helps these governments to make ends meet – both financially and technically. In larger cities, the presence of water and sewerage authorities and development agencies plays a critical and ancillary role to the municipal governments. Without this assistance it is unlikely that local governments even in big cities could have managed. Some of the optional functions of these governments are also performed by these specialised agencies [AERC 1990b, 1993; Zaidi 1991, 1994a].

Education and health are still the primary responsibility of the provincial government, and these governments continue to play an extremely important role in the provision of services in cities. In larger cities, the provincial government plays a minimal role, as a large number of schools and medical facilities are either private, or then developed, administered, and financed by the local municipal government. However, as we show elsewhere, even large cities such as Peshawar (pop 1.5 million), lack the capability to run and develop their own schools, hospitals and dispensaries [Zaidi 1994a]. In smaller towns, the provincial governments play a formidable role, not only in education and health but in almost all other sectors as well. The reason for this is clearly that smaller urban centres lack technical and administrative capabilities and do not have adequate staff to undertake substantial development work. In many cases, large schemes (water supply, sanitation, drainage), which can only be undertaken by the provincial department in the case of smaller towns and cities, are after completion handed over to the local council. The local council is then responsible for operation and maintenance costs, which many are unable to meet [AERC 1991, 1993; Zaidi 1994a].

Essentially, then, local municipal governments, given the existing structure especially in smaller towns, do not have the capability to provide essential services which could positively affect development, such as water supply, drainage and sanitation, primary education, and hospitals and dispensaries. While many governments lack technical capabilities, financial constraints are more severe. A very large share of municipal government budgets goes towards recurring expenditure, a trend which is more pronounced in large cities. This expenditure goes towards maintaining and operating water supply schemes, public health, education and curative care. The highest per capita expenditure in the urban councils in the two biggest provinces, Sindh and Punjab, is incurred on roads. In Baluchistan and the NWFP it is on drainage. In urban areas in the country the high priority sectors for development are water supply, sewerage and drainage, and roads, collectively accounting for 50 per cent of development expenditure [AERC 1990b, 1991]. The picture regarding development provided and undertaken by municipal governments is thus particularly dismal. Urban local governments, with the possible exception of the larger metropolitan corporations in Karachi and Lahore along with a handful of the bigger cities, do not provide either services or facilities which would have a positive developmental effect.

Prospects for Development by Local Government

Urban local governments have been specified a large and varied number of tasks and functions which they have to perform, and some which they may themselves choose to perform. The area and scope of the statutes regarding the provision of services and facilities is broad enough to encourage major projects in the social sector which could benefit underprivileged and vulnerable groups, especially women and children. Almost all major areas are covered in the statutes and a few more could be added. Technically, provincial governments can delegate further responsibilities to the local government as they deem fit.

The problem then is not one of statutory limitations but of financial and technical, and possibly conceptual and motivational, constraints to developing facilities affecting social welfare for the general public. There is a clear relationship with size of city as far as possibilities are concerned. The larger cities usually are in a position to raise funds and provide facilities and services to their populations. Smaller towns and cities just do not have the resources – of any kind – to provide other than very basic facilities, such as roads and drainage. To expect anything else would be very unrealistic. However, we have shown elsewhere that even the relatively large Peshawar municipal corporation spends as much as 86 per cent of its budget on salaries and electricity bills [Zaidi 1994a]. While Lahore metropolitan corporation does have a large number of health and medical facilities, it spends in all less than one-half of a percentage point on health care, spending one-tenth of a rupee per inhabitant [Zaidi 1994a]. Thus, while the larger corporations do have access to relatively more funds, their budgets too are quite small. The low fiscal outlay of the municipal councils necessarily make the salary and administrative costs look excessive. Thus, where revenue and expenditure are limited, as is the case in almost all councils, the costs of administration will remain high until the municipal revenue base is restructured and substantially enhanced.

While financial constraints are the biggest hindrance to the provision of services and facilities in cities, there are some others as well. In the larger cities, the establishment of development authorities and of specialised organisations like the water and sanitation agencies under the provincial government have played important roles in delivering services [AERC 1993]. In small cities the provision of local infrastructure is usually carried out by provincial line departments, in particular the public health and engineering department in the case of water supply and sanitation. This has meant that local bodies have been left in the role of having to provide for solid waste management, cleansing services, drains, etc. This implies that while services and facilities have been provided to the inhabitants, local governments as such have had their role further marginalised. Their role has been relegated to that of operating and maintaining services which have been developed and created by other agencies, a role which they have often been reluctant to play as they feel they were not involved in the planning and implementation process at an earlier stage. Furthermore, the link between service provision and local taxation has been weakened, and hence local government resource provision has been less than its potential. The provision of services and facilities by other agencies has meant that local governments have not been willing or eager to develop their own organisational and technical capability. It has been seen that many communities are willing to pay local taxes and user charges if they feel that adequate services will be delivered. However, local bodies will have little incentive to generate additional sources of income if they are not in a position or are under compulsion to provide municipal services, as the investments enabling the provision of services is under the control of other agencies. Thus, on the one hand while specialist agencies do provide facilities, their presence undermines the role local governments ought to play [AERC 1991, 1992b, 1993].

A general overview of municipal local government reveals that even basic services and facilities are not provided by local governments because they do not have the funds to do so. Furthermore, even if there is expenditure shown on sanitation, water, etc, there is no guarantee that the projects envisaged by local governments would deliver to the more needy and vulnerable population. In most cities, it is the well-to-do neighbourhoods which have access to better facilities. Thus, while local governments may show an increase in expenditure on such facilities, their location within the city would determine their real efficacy. Experience shows that poorer neighbourhoods, often on unregularised lands, where the most vulnerable and underprivileged population lives, do not have access to the most basic facilities. The population which needs facilities most for its development is often neglected most by all tiers of government.

Furthermore, in recent years it has been observed that a larger amount of local government funds have been embezzled by elected members of the councils, a fact which has only helped discredit the role and potential of local government. In the Punjab recently 263 councillors and chairmen were named in a report and were accused of misappropriating close to Rs 500 million (*The Friday Times*, January 27-February 2, 1994). A summary of the recently constituted task force on the new social contract states that "since the 1980s, financial discipline in local bodies has been on the decline. They have learnt to live beyond their means and rules of financial proprietary are not followed and local funds are largely misappropriated. Some of these violations include that [*sic*] expenditure on personal privileges has risen out of proportion. Sale of assets is uncontrolled and pre-determined criteria are absent. Annual audits are often avoided with impunity although the Local Bodies Ordinance require such audits and publication of audited accounts" (*The Nation*, January 19 and 21, 1994). Thus, local governments have come into disrepute and the people have lost their trust and faith in this tier of government. However, it would be fair to say that the higher levels of government are also not exempt from extensive misappropriation and embezzlement.

CONCLUSIONS

While there has recently been growing lip-service paid to the role local governments are expected to play in development, it seems quite clear that the existing structure of government in Pakistan does not permit any meaningful role to this important tier in the hierarchy. Local government has been reduced to an institution which pays recurring costs incurred by schemes often developed by other levels of government. Furthermore most, if not all, local governments face severe financial constraints and are not even in a position to pay the (growing and excessive) salaries of their employees. In the early 1980s, local governments seemed set to play a productive role in development, but ironically the return to democracy at the national and provincial levels has helped to subvert that possibility. Today local government in Pakistan is the least likely, given existing administrative and financial structures, to be able to play any positive role in development. Unless substantial steps are taken to redefine the context and nature of local development, local government will continue to be ineffective.

Having said that, it is also important to realise that within Pakistan, it would be fair to say that local governments alone are not responsible for the dire straits they are in. Unless provincial and national governments practice better governance at all levels of the hierarchical structure, the status quo is unlikely to be changed. Local governments are ineffective not so much due to their own fault but due to the way they have been treated by the higher echelons of government. For local governments to work more effectively, higher tiers of government must have more confidence in the former and must relinquish effective control by the latter. Good governance for urban local government necessarily implies good governance at the provincial and national level as well. Lip-service alone will simply not do.

Notes

1 This and subsequent sections have been extracted from a report prepared by the author for UNICEF, see Zaidi 1994c.

2 This section summarises some of the discussion in AERC (1990b).

3 This section draws from the following studies which treat this theme extensively, AERC 1990a, 1990b, 1991, 1992b, 1993.

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DISCUSSION

Investment, Exports and Growth

A Sceptical Note

Aditya Bhattacharjea

IN a recent paper in this journal, Athukorala (1996) has criticised the earlier contribution of Patnaik and Chandrasekhar (1996, hereafter PC). PC had contested the view that growth in developing countries can be explained by the "efficiency of resource use", by showing that the growth rates of GDP as well as exports could be substantially explained by the investment/GDP ratio alone in cross-country regressions. Athukorala argued that such single-variable regressions were inadequate to establish the superiority of the 'investment' view over the 'resource allocation' view. He proceeded to show that even in the original PC data set, *both* the investment ratio and the growth rate of exports were significant in explaining growth, although the coefficient on the former was much less than that estimated by PC. Also, he showed that export growth in turn could be explained by the investment ratio and a dummy variable which distinguished between inward and outward-oriented countries, thereby relating growth more directly to the policy regime. While there is merit in Athukorala's methodological criticism (and also that of Dubey 1996, with which I am not concerned), my purpose in this note is to show that his analysis is flawed, and that in fact his own results as well as several other empirical studies show the explanatory role of capital accumulation in growth to be more secure than that of trade-related variables.

Athukorala estimates two equations, using the PC data:

$$G = \beta_0 + \beta_1(I/Y) + \beta_2 G_x + \mu \qquad ...(1)$$

$$G_x = \alpha_0 + \alpha_1(I/Y) + \alpha_2 D_{OR} + \mu \qquad ...(2)$$

where G = GDP growth rate, I/Y = investment ratio, G_x = export growth rate, and D_{OR} is a dummy variable taking the value 1 for countries following outward-oriented policies, and zero otherwise. I begin by taking Athukorala's results at face value. All the variables are significant and of the expected positive sign; the R^2 are higher than in the comparable PC equations, and the addition of the trade variables is supported by F tests. He makes much of the fact that his estimated β_1 parameters are lower than PC's. However, if as he claims the OLS estimates do not suffer from endogenity bias, we can substitute (2) into (1) to obtain the reduced form:

$$G = r_0 + r_1(I/Y) + r_2 D_{OR} + \varepsilon \qquad ...(3)$$

The coefficient of the investment ratio is actually $r_1 = \beta_1 + \beta_2\alpha_1$, which decomposes the effect of investment on growth into a direct effect and one that works through exports. Correspondingly, the coefficient of the orientation dummy is $r_2 = \beta_2\alpha_2$. These composite coefficients, computed from Athukorala's parameter estimates, are reported below, along with the PC estimates (referred to here as β_{PC}) for the coefficient on the investment ratio in their GDP growth regression:

Period	β_{PC}	$r_1 = \beta_1+\beta_2\alpha_1$	$r_2 = \beta_2\alpha_2$
1968-88	0.32	0.31	0.43
1968-78	0.29	0.28	0.76
1978-88	0 36	0 29	1.34

We see that when Athukorala's results are properly interpreted, the estimated coefficients of the investment ratio are very close to those estimated by PC, and in fact fall within an even narrower range! It is the coefficient on the orientation dummy which exhibits marked instability, placing a question mark on its reliability. However, let us continue to rely on Athukorala's estimates for a moment to examine his claim that they "provide strong support for the neoclassical (Bank-Fund) view", interpreted to mean that for the same investment rate, outward-oriented countries grow faster. This could as well be turned around by a 'structuralist' to argue that a suitably higher investment rate can substitute for the painful transition to outward orientation. The right-hand column above gives the modest increases in the GDP growth rate which could be expected from 'opening up'. Comparing these with the middle column, we see that depending on which period is used, a rise of between 1.4 and 4.6 percentage points in the investment ratio can yield the same increase in the growth rate. The debate then should revolve around the question of which is politically and economically easier to achieve.

However, this was only to show that Athukorala's own results do not support his conclusions. My more serious objection is to his methodology. If there were really no endogenity problem, a direct OLS estimate of (3) using the same data should confirm his results. Instead, I obtained the following (t-ratios in parentheses):

Period	r_1(OLS)	r_2(OLS)	R^2
1968-88	0.30 (6.84)	0.70 (1.33)	0.74
1968-78	0.23 (3.42)	2.29 (2.92)	0.58
1978-88	0.29 (5.49)	1.12 (1.39)	0.67

Except for the earlier decade, the direct estimates for r_2 are not significantly different from zero. Once one investigates the nature of the dummy variable, this is hardly surprising. Athukorala uses the four-fold classification of countries by degree of outward orientation in World Bank's 1987 *World Development Report*, collapsing them into two categories. He takes the classification from Edwards (1993) - but pays no heed to the scepticism Edwards himself expresses on the very same pages (1386-87) about the reliability of this controversial and inconsistent classification. In an earlier paper Edwards goes even further, observing that a "serious limitation of this indicator is that it is *subjective* in the sense that the researchers that constructed it used their judgment to classify different countries in the alternative openness categories" [Edwards 1992:51, emphasis in the original]. He and several other recent analysts use alternative measures of trade orientation for their far more sophisticated cross-country regressions, which I discuss below. To the extent that subjectivity makes the *WDR* indicator non-comparable across countries, Athukorala's dummy variable suffers from measurement errors. And to the extent that successful export performance influenced the Bank staff's perception of a country's "outward orientation" in assigning countries to categories, the dummy cannot be regarded as exogenous in equation (2).[1]

In any case, the *WDR* classification, for what it is worth, is for 1963-73 and 1973-85, quite different from the sub-periods covered by the data used by PC and Athukorala. Moreover, Athukorala has arbitrarily classified countries which the Bank regarded as outward-oriented in either sub-period as being outward-oriented for the entire period, and added China to this list for good measure. He also seems to have used his own subjective judgment in assigning to the dummy a value of zero for Egypt and Paraguay, which were not included in the *WDR* classification at all. Although (as I shall show below) there is evidence of a strong relationship between investment and export growth in other studies, Athukorala's estimation of equation (2) is highly suspect.

GROWTH AND EXPORTS IN CROSS-COUNTRY REGRESSIONS

There remains equation (1). Cross-country regressions relating GDP growth to investment and/or trade variables have been estimated by several scholars in the last 30 years, so perhaps one should examine what these earlier studies have found before attempting to reinvent the wheel. The earliest studies, beginning with Emery (1967), simply regressed GDP growth on export growth rates and found significant positive coefficients. However, later investigators showed that these were not robust to changes in the data set [see Batchelor et al 1980,

which also gives a bibliography of the earlier studies]. Michaely (1977) pointed out that since exports are a component of GDP, the correlation was only to be expected and had no explanatory power. He suggested certain adjustments which need not detain us here. What is important is that Athukorala's equation (1) does not acknowledge this as a problem. (Sheehey 1993 and other references cited there show that such specifications result in inconsistencies and biased parameter estimates.)

Other investigators realised that bivariate regressions were unsatisfactory, and tacked on various other explanatory variables. Of particular significance were 'growth accounting' specifications derived from production functions, incorporating the growth rates of capital stock and the labour force [e g, Feder 1983]. This has now become the standard practice. More recent investigators have incorporated school enrolment ratios (to measure human capital); GDP levels in some earlier year (to test for 'conditional convergence' between countries at different initial levels of development); shares of government consumption in GDP (to measure the costs of 'resource misallocation'), and literally dozens of other variables, including several alternative measures of outward orientation. In fact, with the spread of powerful econometric packages, computing facilities and electronically accessible databases in recent years, along with the renewed interest in growth economics, running cross-country growth regressions has become virtually an industry.

Perturbed by this deluge of often contradictory results, with various authors between them finding over 50 variables to be significant determinants of growth, Levine and Renelt (1992) have carried out a truly subversive exercise, which is of special relevance to the point at issue here. They assembled a data base of over 50 variables, most of them time series, and ran thousands of growth regressions to test whether the conclusions of the earlier studies were robust to small changes in the set of conditioning variables. For each candidate explanatory variable, they estimated coefficients in multiple regressions with different combinations of conditioning variables, and computed the upper and lower 95 per cent confidence limits from the highest and lowest estimate for the coefficient of interest. The variable was deemed to be robust only if these upper and lower bounds were both significantly different from zero and of the same sign. Most of the explanatory variables in the literature failed this test, but the investment ratio passed handsomely. Their findings on variables representing trade and price distortions are worth quoting at length:

> First, if one substitutes imports or total trade for exports in cross-country growth or investment regressions one obtains essentially the same coefficient estimate and coefficient standard error. Thus, researchers who identify a significant correlation using an export performance measure should not associate this with exports *per se*, because it could be obtained using a corresponding measure of imports or total trade. Second, the share of trade in GDP is robustly positively correlated with the share of investment in GDP. Finally, when controlling for the share of investment in GDP, we could not find a robust independent relationship between any trade or international price-distortion indicator and growth. These three results indicate that the relationship between trade and growth may be based on enhanced resource accumulation and not necessarily on the improved allocation of resources... These results suggest an important two-link chain between trade and growth through investment [Levine and Renelt 1992:953-55].

Levine and Renelt seem to favour a causal chain running from trade through investment to growth. However, their results equally support the PC hypothesis which runs from investment to exports and growth, and has the merit of being grounded in a theoretical framework. I should point out that these results involved the export share in GDP as the relevant explanatory variable, while Athukorala and some earlier investigators used the export growth rate or export growth times the share of exports in GDP. However, Levine and Renelt also report that they tried these, and found that "neither of these variables is robustly correlated with growth when the regression includes corresponding fiscal indicators [e g, growth of government consumption expenditure]. Given the national accounts identity, even if we found a robust relationship, it is not clear what worthwhile inferences could be drawn" (p 957, n 14). As they put it more sarcastically in an earlier footnote, "one only needs to include the growth rates of enough components of GDP to explain the cross-country variance in growth" (p 952 n 8). Note that this is the same point made by Michaely (1977). (Since the numerator of the investment ratio is the investment level rather than its growth rate, it is exempt from this criticism.) In short, Athukorala's equation (1) is mis-specified.

Growth and Trade Policy

Levine and Renelt also found that six measures of trade policy orientation and distortion could not be robustly related to GDP growth. On the other hand, Edwards (1992) and Harrison (1996) also use alternative trade policy indicators in growth regressions and find them generally significant, and make a case for openness. However, they both finesse some problems with their results. For nine of the ten openness indicators he tries out, Edwards does not report the numerical value of the 't'-statistic: he only mentions that it lies between one and two for eight of them, and one of these has the wrong sign. Considering that the number of observations in Edwards' regressions ranges from 30 to as low as 12, this is far below the conventionally accepted level of statistical significance. The ninth indicator, for which he reports $t > 2$, is the *WDR* classification, about which as noted above Edwards himself is openly sceptical. Only for one index (actually the set of so-called Leamer indices) does he report significant t values, but he himself is aware of the limitations of these indices, including the fact that they are available for only 1982 and yet must be assumed to represent openness for the entire period (1970-82) of his study. Furthermore, Levine and Renelt find the Leamer indices to be both non-robust and contradictory: the separate indices for openness and intervention are *positively* and significantly correlated with each other!

Harrison finds that the relationship between openness and growth cannot be established in cross-section regressions which use averages of the data over long periods, which is the method used by Athukorala (and Edwards). This is presumably because "most developing countries have experienced large swings in commercial and exchange rate policies over the last 30 years, which could render any proxies for openness essentially meaningless" [Harrison 1996:432]. This would apply especially to the Leamer indices, which gave Edwards his only worthwhile result, and which Harrison explicitly rejects. Her panel estimation using annual data (i e, pooling the cross-section and time series data) gives the strongest verdict in favour of openness. However, a limited sensitivity analysis she undertakes along the lines of Levine and Renelt shows that half the openness indicators found to be significant are not robust. Nonetheless, she finds it encouraging that the remaining half are robust. What is noteworthy in this context is that in both studies the investment ratio is significant in *every* regression, regardless of which other variables are used.

Two other issues that have been examined in this extensive literature are also relevant, and may explain the mixed results obtained for the trade policy variables. First, several investigators from Michaely (1977) onwards have found heterogeneity and threshold effects in the impact of exports on growth, with the relationship being much weaker or non-existent for the poorer developing countries. Second, the observed partial correlation in some studies between exports and growth cannot be held to signify causation; several studies have used Granger tests and have shown the possibility of the causation running both ways. Edwards (1993) summarises some of the relevant results (also mixed) on both these issues. Harrison (1996) also finds that the causality between *openness* and growth can run in both directions, her explanation being that protectionism has historically been a response to depressed growth.

To sum up, while the role of investment in promoting growth seems empirically well established, that of openness to trade is still

subject to several ifs and buts. (Note that 'efficiency of resource allocation' has not really come into the picture, for it certainly cannot be identified with either a liberal trade regime or rapid export growth.) Much of the recent theoretical literature on endogenous growth is similarly ambivalent on the impact of trade policy. Strong supporting evidence of another kind comes from the revisionist study by Young (1995) who showed that east Asian growth can be substantially explained by the growth of capital and labour inputs, with residual productivity growth (and hence efficiency gains of various kinds) playing a distinctly secondary role

Of course, Athukorala and Dubey have argued that the World Bank view they espouse does recognise the importance of promoting *both* investment as well as efficiency. (Incidentally, Edwards, Harrison and Levine all conducted their research while working at the World Bank.) But it is between the World Bank's supposed intention and execution that the shadow falls. Other cross-country exercises, conducted independently by a World Bank team which strongly supported liberalisation [Thomas and Nash 1991] as well a group of critics [Mosley 1992], compare the performance of recipients of the Bank's structural adjustment loans during the 1980s with that of other countries, controlling for other variables. While the loan recipients on average exhibited better balance of payments trends, their investment ratios deteriorated, with even the Bank team expressing concern over this [Thomas and Nash 1991:59]. The reasons are familiar: the slashing of public investment in order to meet the Bank/IMF fiscal conditions on the one hand, and on the other the sluggishness or decline of private investment due to the deflationary effect of fiscal compression, and also the fear that the reforms would be reversed in view of the economic and social instability they often cause.

It is true that in India's case the early fears of analysts like PC regarding a similar decline in the investment ratio have not been borne out. But it has certainly not *risen*, and this is what their theoretical model, the vast empirical literature surveyed above, and the experience of the east Asian countries all show to be required for a sustained increase in the growth rates of both exports and GDP. On this, there seems to be 'conditional convergence' in the views of all the participants in this *EPW* debate as well as the World Bank and the government's *Economic Survey 1995-96*. The reasons for the poor response of India's domestic savings and investment to liberalisation have been consistently advanced in periodic editorials in this journal, and need not be repeated here.

The results reviewed above should not, however, be interpreted as justifying a return to the simplistic 'investment fundamentalism' of most 1950s development literature. First, greater attention needs to be paid to the productivity of investment, although there is very little evidence that openness promotes greater productivity growth [Pack 1988; Rodrik 1992]. Second, almost all the studies find school enrolment ratios to be a significant and robust influence on growth. This suggests that the concept of investment needs to be broadened to include human capital - and on this front India's record is even more dismal. Third, some recent work also suggests that the direction of causation runs from growth to physical investment (possibly via human capital formation) rather than the other way round: see Barro and Sala-i-Martin (1995, ch 12) and Blomstrom et al (1996). This would make (I/Y) endogenous in equations (1) and (2) above, and partly account for the instability of Athukorala's estimates. (He seems to have tested only for the exogenity of G_x.) However, it would equally call into question *all* the analyses reviewed here.

The debate over the empirical determinants of growth is clearly far from over, but the reverse causality inferred by the more recent studies, together with the robust relationship between investment and exports established by Levine and Renelt,[2] is consistent with the early formulation by Patnaik (1972) in terms of exports inducing investment, rather than the other way around as in PC (1996). The earlier paper dealt with private investment in advanced capitalist countries, while the latter is concerned with developing countries where public investment plays a leading role in building supply capacities as well as a secure base of domestic demand. In mixed economies both processes work simultaneously. What seems to be required, therefore, is disaggregation of the (I/Y) variable into public and private components. Barro and Sala-i-Martin (1995:pp 441-42) find that the composition of investment has no effect on the GDP growth rate in cross-section analysis, but it is possible that there is a complicated causal mechanism linking exports and GDP growth differentially with public and private investment through leads, lags and feedbacks that can be detected only in time series. This is a subject for future research.

Notes

[I would like to thank K L Krishna, Shantanu Lodh and J V Meenakshi for improving my understanding of some of the issues addressed in this paper. Any deficiencies that remain are entirely my own.]

1 UNCTAD provided a very different taxonomy of countries in its 1992 *Trade and Development Report*. The differences between the *WDR* and *TDR* classifications were highlighted in these columns by Dhar (1993).

2 This is reinforced by the more informal cross-country study of Argosin (1993), who found a significant relationship between the growth rate of manufactured exports and the investment rate, but *no* such relationship between export growth and two measures of import restrictions.

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Child Labour and Compulsory Primary Education

Indian policy-makers continue to be mired in a set of views that preclude their taking the necessary steps to get children into school and out of the labour force. They also pursue a set of industrial policies that promote the employment of children in the small-scale sector. These views are so widely shared that no political party of the right or left, no trade union, no religious organisation and not even the educational establishment has been pressing for policy changes to make elementary education universal and compulsory, which alone can put an end to child labour. 3007

Industry, Finance and Employment

The rich industrial countries of the OECD are going through a profound technological revolution spearheaded by the computer. Stock markets are booming, corporate profits are at an all-time high, but wages are falling, job insecurity is pervasive and social tensions are mounting. In the contradictions between 'industry' and 'finance', the former presses for output growth and the latter insists on zero-inflation. In this battle royal, labour is the worst loser. 3001

From Housewifisation to Androgyny

Androgyny stands for overcoming the cultural parameters defining what it means to be a man or a woman and raising the problem of a common humanity. Work then is defined in terms of ability and interest and the distinctions between men's work and women's work are devalued. Through the specific case of a Christian nun who led the fisher people's struggle in Kerala in 1984, an attempt to understand how androgyny is a useful exercise for understanding women and creative work. 3015

'Joint' Forest Management

The notion of 'joint' management of forests needs to be looked at historically in order to uncover the degree of state intervention in what are generally known as community forest protection schemes. The history of forest protection efforts by one village in Sambhalpur district of Orissa brings out some of the internal and external threats to the sustainability of joint or community forest management. 3021

AIDS Extravaganza

By focusing on the recent advances in the treatment of AIDS patients, the international AIDS conference in Vancouver and the media covering it failed to highlight the more immediate need to expand AIDS prevention programmes in the developing countries. 2987

Redefining Development

The consequences of the only development model before us, the one presented by the developed capitalist countries, are becoming increasingly evident globally. An examination of the implications of an alternative development paradigm for important areas such as agriculture, industry, energy, capital and the respective roles of the state and the market. 2991

Old Equations

The Uttar Pradesh assembly elections will be remembered for the decisive turning away of both the SP and the BSP from their anti-upper caste, dalit-backward-Muslim agenda to old, Congress-type status quoist social equations. 2983

Away with Pests

The current drive by the Left Front government in West Bengal to phase out hand rickshaws is a part of the grand plan to modernise Calcutta in the context of globalisation. Unlike the last time, in the early 1980s, when the Left Front had attempted to abolish hand rickshaws, there has been little protest from any quarter today. 2977

Missing the Target

Money market developments after the latest credit policy announcement have thrown into sharp relief the narrow groove in which the banking system has got stuck and the rigidity in the operations of banks and financial institutions encouraged by the limited perspective of the so-called financial sector reforms. 2970

Post-Crisis Peru

The reform government of Alberto Fujimori has succeeded in restoring domestic security and economic growth in Peru. But this has been at the cost of an inert civil society and over-concentration of power in the person of the president. 2986

Women and Land

THIS is in response to the 'vituperative' debate between Bina Agrawal and Indu Agnihotri. Unfortunately the latter's attempt to "set the record straight" in the September 28 issue only betrays both her ignorance of the land situation in India and her downplaying of the significance for women of the caste-linked patrilinear, patrilocal social structure.

Where would women get their land, she asks? Obviously they would get a share of family land, not of the 1.04 million hectares available for distribution to the landless (families), not of the land that could be presumably seized from big farmers. Some projects for land for women ask for shares of waste land or surplus land to be farmed co-operatively by groups of women or for distributed land to go in the name of women rather than male family heads; these represent a major step forward. But until women get a share of family property, the hold of the patrilineal social structure which keeps them propertyless, resourceless and dependent will not be broken. The major form of property relevant in the rural areas is land (though we also want to talk of houses, animals and other fixed assets, as well as entitlements to education and knowledge-as-property) and so a broad campaign for land rights to women is at the core of a liberation movement. Bina Agrawal has posed the question, if we say 'land to the tiller' is crucial for the landless in general, what about the landlessness of women?

Indu Agnihotri seems to be under the impression that landholding is so concentrated that the issue of family land and patrilineal inheritance is of relevance only to a minority. Land distribution in India is indeed unequal but it is also widely dispersed. The figures are something like 25 per cent of rural households not cultivating land, only 9 per cent not owning land. A high percentage of these are small holdings, but these are also relevant to women. Even a small bit of land can provide security and a resource base, not to mention status.

It is also erroneous to imply that all dalits are landless (Agnihotri does not even try to talk about tribals in this connection). This varies very much from region to region, but in many states many sections of dalits have small holdings. This is true for instance in Maharashtra, Karnataka, apparently in Bihar, to some degree in Orissa from what I have seen. And as dalits win control of government lands or of 'surplus' or a share of the commons, the issue of who in the dalit family will control the land becomes crucial – as the women in the Bodha Gaya struggle understood very well.

Giving an explicit share in 'family' property to women is relevant even to the landless. Where the hut, small animals, all are under the control of the man, he can expel his wife. We know cases of 'abandoned' women, back in their maternal home and living with an old father and mother, working as labourers to support them – but knowing that when their father dies the house they live in will go to some distant brother, since women simply do not have inheritance rights.

In the villages I have seen where the Shetkari Sanghatana and Shetkari Mahila Aghadi campaign for land rights for women has been carried on, the overwhelming majority of land given to women have been small shares of ¼ to ½ acre. The women involved have been from all castes, including dalits. And major obstacles have come from the state government, which has in most cases refused to recognise these sales because, according to them, 'breaking up' landholdings below five acres leads to land fragmentation. Where the campaign has demanded a straightforward share for women, the government has proposed joint pattas. I understand the West Bengal government also supports this. I would only say, ask the women themselves which they prefer! And the support of the wider women's movement for land for poor women is necessary to break this official prejudice against women having land.

Indian women's landlessness cannot be blamed on colonialism. While colonial rule has almost everywhere worsened the situation of women in regard to land rights, this does not negate the differences of traditional social structures between societies in south Asia and China compared to those of south-east Asia and elsewhere. Amartya Sen's 100 million 'missing women' are found almost entirely in India and China because of their traditional patrilineal, patrilocal kinship structures. When we refuse to believe that patriarchal social structures are as strong, as long-lasting, as hard to combat as class social structures, we are simply leaving ourselves helpless before the millennia-old subordination of women.

Patriarchal bias, as Agnihotri rightly points out, is not a leftist prerogative. If feminists sometimes seem to over-criticise the left on this issue, it is because they expected more. After all, those who talk of 'land to the tiller' and proletarianisation should recognise propertylessness where it exists, even inside families. Or are we going to say that women automatically have the class positions of their husbands? Our debate here is an old one and has to do with whether patriarchy and gender (and caste) and other oppressive social structures can be seen simply as a reflection of particular class relations, or whether they have an existence of their own that has to be analysed and combated.

Bina Agrawal deserves congratulations for a well-documented and eloquently argued study on this issue. If at points the debate becomes a bit emotional it is because we have been coming up against a stone wall here for a long time.

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Narrow Perspective

THE long delay in finalising a code on corporate take-overs based on the Bhagwati Committee's report underscores the complexity of the issue. As was pointed out by the Statement of Industrial Policy (1991), the amendment of the Monopolies and Restrictive Trade Practices (MRTP) Act and the Foreign Exchange Regulation Act (FERA) diluted or did away with pre-investment scrutiny of investment decisions of MRTP and FERA companies, including in many cases the requirement of "prior approval of the central government for expansion, establishment of new undertakings, mergers, amalgamations and take-overs". This has encouraged a virtual boom in mergers and acquisitions, with take-overs often involving large transnational companies that were already operating in the domestic market (Unilever, for example) or are more recent entrants (Coca Cola). What the Bhagwati panel seeks to do is to amend the hitherto ad hoc regulation of such take-overs with four objectives in mind: (a) to legitimise take-overs so long as a procedure laid down by the Securities and Exchange Board of India (SEBI) is followed; (b) to clearly define that procedure; (c) to facilitate the participation of minority and small shareholders of the target company in the take-over process; and (d) to strengthen the regulatory capacity of the SEBI in this regard.

A code with these objectives must begin by defining, however arbitrarily, when the acquisition of shares of a company by an individual or another company constitutes a take-over. Difficulties arise when the acquisition of control is based on share purchases in a third company with a controlling interest or there are a number of companies acting in concert. Hence, in a major departure from past policy which accepted take-over as a possibility when more than 10 per cent of a company's share capital was acquired, the Bhagwati Committee has recommended that "not only acquisition of shares but also voting rights in a company or control over the company, howsoever such control be exercised – directly or indirectly – must be covered under the regulations and the present definition of acquirer". This implies that the new regulations, if and when implemented, would be triggered even when control of listed companies is acquired through buying into, say, investment companies that control a majority of equity in them. The only situation when the regulations would not apply would be in cases of 'creeping take-overs' through purchases of up to an additional 2 per cent of equity in a year by those holding between 10 and 25 per cent in a company or up to 5 per cent in a year when the holding is between 25 and 50 per cent. Finally, the committee has recommended that "the definition of persons acting in concert be expanded to include mutual funds, their sponsors, asset management companies and trustees, foreign institutional investors and banks, financial advisers and stock brokers".

Thus not only has the definition of take-overs been widened but so has the coverage of the type of actors who can be involved, subject of course to any other laws applicable with respect to the investor concerned. The first point to be noted is that by providing this definition and recommending regulations that must apply, the government has virtually legitimised take-overs, whether negotiated or hostile, provided they are effected in the manner prescribed. The regulations, in the committee's view, "should operate principally to ensure fair and equal treatment of all shareholders" without imposing "conditions which are too onerous to fulfil and hence make substantial acquisitions and take-overs difficult".

To that end the committee recommends that when the take-over provisions are triggered the acquirer must make a public announcement of his acquisition of share and make an offer to buy at least 20 per cent of the equity from shareholders at a pre-specified price. That price itself is to be calculated taking into account the price paid by the acquirer for shares purchased to ensure a change in control and/or the average six-month high and low prices in the stock exchange. To prevent frivolous offers, a sum equal to 10 per cent of the offer value has to be deposited in an escrow account with provision for forfeiture in case of default on the promise to buy.

All this does indeed help small investors to benefit from the inflated values at which share transfer takes place in the course of a negotiated or hostile take-over of a company, with the opportunity to opt out in case they do not have confidence in the new management. It also allows incumbent managements to respond to a take-over threat, by requiring early declaration of a challenge to management (10 per cent of equity or indirect acquisition of control) and by rendering the process transparent. Since financial institutions, which control substantial chunks of equity in many listed companies, are known to favour incumbent managements, this would on the whole make acquisition difficult and dilute the role that stock markets are purported to play as monitors of managerial discipline. Only when the acquirer has deep pockets to buy out at any price as it were would the acquisition route to expansion be pursued.

Thus what the committee's recommendations really achieve, in combination with the liberalisation of MRTP and FERA regulations, is on the one hand to legitimise business expansion through acquisition as a normal business practice, while favouring incumbent managements and shareholders in the course of a take-over bid. On the other hand, by shifting the responsibility for regulating take-overs to SEBI and focusing on the capital market aspects of the process, especially the need for investor protection, the committee and the government have underplayed the need for regulating mergers with the objectives of (a) curbing concentration of corporate power ,

and (b) guarding domestic companies against threat from major international players. The latter is a crucial consideration because transnational firms with deep pockets have the wherewithal to offer attractive rupee prices to acquire additional stock, including the 20 per cent they need to buy for embarking on a take-over. Not surprisingly, there is enough evidence already of increase in take-overs with the aim of market entry or market consolidation by leading corporate players.

The Bhagwati Committee's recommendations thus have two contradictory tendencies. By favouring incumbent managements, they bias the take-over procedure in the direction of sustaining managerial status quo. At the same time, by legitimising negotiated or hostile acquisition of shares by large domestic and international companies with substantial financial strength, they accentuate tendencies towards product and capital concentration. Both these tendencies, it should be obvious, are likely to hinder rather than advance competition, which the dilution of MRTP and of foreign investment regulation under the economic reform regime is supposed to achieve.

INTER-STATE COUNCIL

Empty Ritual?

TRUE, this was the only second time in almost 50 years since independence that the Inter-State Council was called to meet. True also that it had taken 44 years for the government at the centre to set up the council and that too only when a non-Congress administration was in power. But what exactly is the Inter-State Council supposed to do if and when it does meet? Do we get any insight on this subject from the reported outcome of the council's meeting on October 15?

The agenda of the council's meeting comprised consideration of the Sarkaria Commission's recommendations. It is worth recalling that this commission's report has been hanging fire for over 10 years, unless the formation of the Inter-State Council is itself considered as a follow-up to the commission's recommendations. A subcommittee of the council had been deliberating on the commission's various recommendations for almost five years and the October meeting of the council was to decide what action to take on the recommendations of the subcommittee. Of the 247 recommendations of the Sarkaria Commission, the subcommittee had finalised its views on 179, proposing 130 recommendations for acceptance without modification, 25 for acceptance with modifications and 24 for rejection. Significantly, however, on major issues of centre-state relations such as declaration of a state of emergency, discretionary powers of governors, reservation of bills, union's directions to states or centre-state financial relations the subcommittee has been unable to reach a consensus. Indeed, the agenda of the Inter-State Council meeting sought to exclude financial relations from its deliberations on the ground that the subcommittee had yet to finalise its views, giving one the impression that the subcommittee is to continue its functioning.

The present United Front administration had, on assuming office, committed itself to work towards strengthening political federalism and devolving powers and authority in the political, administrative and economic spheres by pledging itself to a 'two track' policy on the Sarkaria Commission's recommendations, the first track consisting of action on recommendations on which there was a consensus and the second track involving the setting up of an expert committee which would "review and update" the Sarkaria Commission's proposals and also look into "the vital question of devolution of financial powers" within three months.

The question to ask at the end of the council's meeting is whether or not the commitment to proceed on two tracks is within sight of fulfilment. All that the home minister's statement tells us is that a standing committee of the council will, on its appointment, review the Sarkaria Commission's recommendations. It is totally silent on the appointment of the expert committee. All that it says is that experts may be invited by the standing committee for consultation. But how long will the standing committee take to complete its tasks, be these in regard to areas on which there is a consensus or in regard to others where review and fresh consideration are called for, including centre-state financial relations. Going by the way the earlier subcommittee took five years to report, will the standing committee function with any greater speed? Or will the whole matter remain in suspended animation for yet another five years?

RBI AND DEVELOPMENT FINANCE

Time to Return to Old Role

A REMARKABLE, but relatively little noticed, aspect of the Reserve Bank of India's *Annual Report* for the past two years has been the transparency in the presentation of the highlights of the central bank's operations as reflected in its annual accounts. Being the apex monetary authority, the assets and liabilities of the RBI constitute the fountainhead of money creation in the system in the form of 'primary' or 'reserve' money. The RBI's latest balance sheet total as of October 18, 1996, for instance, was Rs 2,25,287 crore, while 'reserve money' stood at Rs 1,89,129 crore, the difference of Rs 36,158 crore representing the non-monetary liabilities of the RBI. These non-monetary liabilities constitute capital and accumulated reserves and funds out of the profits of the central bank; when they are netted against the relatively small amounts of non-monetary assets such as the RBI's investments in buildings, furniture and fixtures, etc, the balance constitutes the RBI's net non-monetary liabilities which have the effect of contracting liquidity in the system.

The net non-monetary liabilities of the RBI have expanded significantly in the past two years. They were around Rs 26,000-27,000 crore for five years from 1990-91 to 1994-95. Then they rose to Rs 30,000 crore in 1995-96 and have gone up further to about Rs 36,000 crore in 1996-97 so far. Thus there has been an addition of about Rs 10,000 crore to net non-monetary liabilities in the past two years, almost all of which is attributable to financial sector reforms and some fall-out of the stabilisation programme such as the depreciation of the rupee and rise in yield rates on treasury bills and government securities.

The RBI's total income, after various provisions, has shot up by 67 per cent in the last two years from Rs 7,145 crore in 1993-94 (July-June, the RBI's accounting year) to Rs 11,932 crore in 1995-96. The sharpest increase has been in earnings from foreign investments, from Rs 722 crore to Rs 3,723 crore. Earnings from domestic investments have risen by 28 per cent from Rs 6,424 crore to Rs 8,209 crore. At the same time, the reduction in cash reserves maintained by banks and non-payment of interest on incremental CRR beyond the March 1990 level have helped to contain the rise in the RBI's expenditure to 14.5 per cent from Rs 3,778 crore in 1993-94 to Rs 4,324 crore in 1995-96.

The resultant increase in the surplus or net disposable income of the RBI from Rs 1,504 crore in 1993-94 to Rs 3,942 crore in 1995-96, however, hides the true picture of the rise in the RBI's profits and provisions, for the income and appropriations exclude a series of provisions for various contingencies. The RBI rightly adopts conservative accounting norms. Its securities portfolio is fully marked to market and at the end of every month the portfolio is valued at the lower of book value or market value. Depreciation is provided if the market value is lower, but any appreciation is ignored. Among the major reserve funds, the Contingency Reserve (CR) is intended to enable the central bank to meet any unforeseen liability arising out of a sharp fall in the value of securities and gold and valuation loss due to exchange rate fluctuation. But the CR is used to meet exchange losses only when two separate reserves specifically created for the purpose prove insufficient. There is the Exchange Fluctuation Reserve (EFR) which represents the accumulated net gain on valuation of foreign currency assets and gold. Gains or losses on the valuation of foreign exchange assets are not booked into the profit and loss accounts, but are credited/debited to the EFR. Out of the EFR an appropriate amount is transferred to an Exchange Equalisation Account (EEA) to meet the exchange losses in respect of liabilities under schemes involving exchange guarantees by the RBI, such as the India Development Bonds (IDBs) and funds parked by financial institutions with the RBI. Such exchange guarantees are no longer being given by the RBI; hence there will be no additional pressure on the EFR due to such schemes (except for the outstanding IDBs and FIs' funds).

It is the very large increase in the balances in these three reserve accounts that deserves attention. The CR has gone up from Rs 2,674 crore at the end of June 1994 to Rs 7,726 crore at the end of June 1996 – an addition of Rs 5,052 crore in two years. More significantly, the EFR and EEA together have swelled by Rs 6,338 crore, from Rs 8,457 crore to Rs 14,795 crore during this period. A number of policy changes have been effected in the deployment of RBI surpluses in recent years. As part of the task of promoting term-financing institutions (IDBI, SIDBI, SFCs and NABARD), large amounts used to be transferred year after year from the profits of the RBI into four statutory funds specially created for this purpose. This practice was discontinued in 1992-93 following an arrangement with the World Bank and the Asian Development Bank for a structural adjustment loan for financial sector reform. The argument was that as part of financial sector reform public financial institutions must be placed on an equal footing with private ones: they must no longer have access to concessional sources of finance and must rely on the market for mobilising funds at market-related rates of interest.

The RBI also used to carry heavy liabilities on account of the exchange guarantee given on external deposits under the foreign currency non-resident accounts (FCNRA) scheme. The government took over the exchange risk liabilities relating to the FCNRA deposits from July 1, 1993. Against this the RBI agreed to provide additional support to the government out of its income. Thus in addition to the normal transfer of Rs 1,500 crore per year to the government, the RBI transferred Rs 2,058 crore in 1994-95 and Rs 2,438 crore in 1995-96. These transfers have been just enough to provide exchange protection for maturing FCNRA deposits. The RBI has revealed that 1996-97 will be the last year when there will be sizeable FCNRA losses to be borne and the losses will be totally extinguished by August 1977. The system of extending exchange guarantees on foreign currency deposits has been done away with and the new schemes carry no exchange guarantee by either the RBI or the government. To the extent the RBI has obligations on the IDBs and the FIs' funds parked with it, the Rs 2,819 crore in the EEA at the end of June 1996 is believed to be sufficient to meet them.

RBI spokespersons have claimed that the central bank's balance sheet has been cleaned up because of the stoppage of payment of interest to banks on incremental CRR and the discontinuance of exchange protection for external deposits, but two other very favourable developments have been the steep depreciation of the rupee since July 1991 and the sharp rise in yield rates on treasury bills and dated government securities even as the government's monetised deficit has continued to be high. The RBI's average earnings on its foreign exchange assets have also gone up from 4.87 per cent in 1994-95 to 6.18 per cent in 1995-96. Since any sizeable appreciation of the rupee can be safely ruled out as can be a sharp depreciation of the RBI's investment portfolio (with the dire need to lower yield rates on government securities, the price of government paper is likely to rise), there is little chance of any significant depletion of the RBI's existing reserves.

Against this background and the accumulation of Rs 14,795 crore under the EFR/EEA and Rs 7,726 crore under the CR, the RBI must seriously consider extending additional support to financial institutions assisting industrial and agricultural development. In the name of financial sector reform, the RBI abdicated a vital promotional function with additional adverse repercussions on the liquidity situation and real rates of interest in the economy. To mobilise resources from the market the financial institutions have had to engage in pointless competition which has pushed up the average cost of funds for all – banks, FIs themselves and manufacturing firms. The release of CRR funds has not helped much. Instead if the RBI were to provide an additional Rs 3,000 to Rs 4,000 crore as support to the financial institutions at, say, the bank rate of 12 per cent, it would make a significant impact on these institutions' cost of funds which would make it possible for them to effect more worthwhile cuts in their lending rates than they have done recently.

Implicit in this is a strong case for the RBI's assistance to be directed to individual institutions, purposes and sectors, including sector-specific refinance facilities for banks. After all, the huge reserves (other than those from revaluation of foreign currency assets and gold) which figure in the RBI's balance sheet have come from the domestic economy and so denote corresponding contraction of liquidity. In 1994-95, for instance, the RBI's net non-monetary liabilities rose by Rs 3,321 crore, while RBI credit to the commercial sector (FIs other than NABARD) expanded by just Rs 148 crore and for 1995-96 the figures were Rs 2,943 crore and Rs 262 crore, respectively. Clearly, it is time the RBI reconsidered the misguided decision taken five years back and returned to its role of promoting long-term investment in industry and agriculture through augmenting the loanable resources of the relevant term-financing institutions.

PUNJAB

Cheery Tidings for SAD

BY sweeping the Shiromani Gurudwara Prabhandak Committee (SGPC) polls, the Shiromani Akali Dal (SAD) has strengthened its prospects for the Punjab assembly elections to be held in next February. This victory follows the success of the SAD-BSP alliance in the parliamentary elections in May this year.

The results of the SGPC polls, held after a long gap of 17 years, indicate that the SAD was able to mobilise a wide cross-section of Sikh votes in its favour. The SAD won 155 of the 170 seats spread across Punjab, Haryana, Himachal Pradesh and the union territory of Chandigarh. The tacit support of the BJP, which exerts influence over the 15 per cent or so votes of Sahajdhari Sikhs in the region, contributed to the performance of SAD. Most importantly, the results reaffirmed the marginalisation of extremist Akali factions within the Sikh community. Akali Dal (Mann), Damdami Taksal and Sant Samaj had extended support to the Akali Dal (Panthic) candidate, Darshan Singh Ragi, the former head priest of the Akal Takht. The failure of the extremist factions to put up a credible challenge in the SGPC polls after their rout in the parliamentary elections confirms that Sikhs in Punjab are in favour of moderate Akali politics.

Though the Congress has never participated in the SGPC polls, it has maintained an interest in keeping Akali politics divided by encouraging dissidence within the SGPC. The near-unanimous verdict of the SGPC polls in favour of the SAD on the eve of the assembly elections is a sombre signal to the party. The continuing infighting within the Congress after the assassination of Beant Singh has caused considerable damage. The party was able to win just two of the 13 parliamentary seats, for which the differences between chief minister Harcharan Singh Brar and the then Pradesh Congress Committee president, Virender Kataria, have been blamed. Kataria has since then been replaced by Ambika Soni. Even Brar's cabinet has been reconstituted with Rajinder Kaur Bhathal of the rival group being made the deputy chief minister. Yet there is no let-up in dissident activity Brar absented himself from a recent Congress rally at Baba Dera Nanak to flag off the campaign for the assembly polls. Rajinder Kaur Bhathal and Ambika Soni made appeals in the name of Beant Singh indicating that Brar is not being allowed to grow out of the shadow of the former chief minister.

Yet all may not be lost for the Congress. The breakup of the SAD-BSP alliance, after the BSP's tie-up with the Congress in Uttar Pradesh, has introduced some fluidity into the political situation in Punjab. For the Congress this is a positive development, hopefully suggestive of a similar arrangement with the BSP in Punjab. The BSP has a base among the Mazhabi and Ramgiri Sikhs who constitute 27 per cent of the population. Moreover, though the Congress managed to win only two parliamentary seats, it did secure 36 per cent of the votes. The SAD, on the other hand, emerging as the winning horse, can expect to witness a reactivation of factionalism as was already evident at its campaign rally at Patiala.

THE ECONOMY

You Too, Dandavate?

HAS even Madhu Dandavate, the current deputy chairman of the Planning Commission, joined the IMF bandwagon? He recently declared that "India's borrowings

have grown indiscriminately". The argument he advanced to support his assertion was that interest payments projected at Rs 60,000 crore in 1996-97 would absorb 46 per cent of the total revenue of the central government. But has he examined why the ratio of the government's interest payments has soared, and that too in the reform years? If his subalterns in the Planning Commission had briefed him properly, the answer would have been readily available to him and he might not have hastened to put all the blame on the supposedly indiscriminate growth of public borrowing. The head of the Planning Commission ought to know that when he rails against public borrowing he is, at the same time, cutting the ground from under his own feet. After all, it is public borrowing which is the principal source of financing available to his Plan. Neither the centre nor the states are able today to generate enough revenues even to cover their non-Plan revenue accounts. So when Dandavate asks for a limit "to be placed on borrowings through appropriate central and state legislations", he is really advocating a limit to be placed on the Plan size. But he is, at the same time, reportedly telling the states that the next Five-Year Plan will be at least twice the size of the Eighth Plan in nominal terms. How serious he is in this regard is open to strong doubt, judging by his exhortation in support of checking public borrowing.

The question that Dandavate fails to answer relates to the factors behind the spurt in the ratio of the government's interest payments to revenue. Let us pose a few questions which he may wish his underlings in the Planning Commission to answer. First, has not the government's interest liability risen faster than public debt? If so, is this not because interest rates on public borrowing have been jacked up substantially as a matter of deliberate policy during the reform years? Second, has the increase in the revenues of the government kept pace with the rise in national income? How is it that while national income has been rising, the already modest ratio of tax revenue to national income has been allowed to decline further during the reform period? If you deliberately let the nominator rise while allowing the denominator to decrease, the outcome will be precisely what Dandavate panics about, at his own expense.

POLITICS

Divided Secularists

FOR all their anti-communal rhetoric, the non-BJP forces are yet to forge unity and offer a viable alternative. Had they been really serious about fighting the menace of Hindu communalism, they could have avoided the division of votes in the assembly elections in Uttar Pradesh that led the BJP to emerge as the single largest party. In the post-election scene, the ambivalent attitude of the opportunist leaders of BSP towards the BJP once again exposed the vulnerability of casteist politics to the allurement of BJP promises. The experience of the short-lived BSP-BJP honeymoon during Mayavati's tenure as a chief minister had evidently failed to teach her and her power-hungry colleagues in her party.

Imposition of president's rule in Uttar Pradesh may be a short-term ploy to keep the BJP out of power, but it is no substitute for a nationwide united offensive to defeat the Sangh 'parivar', in elections and in every other sphere of society. It is the absence of such an offensive that is encouraging fanatics like Bal Thackeray to issue 'fatwahs' every now and then and the goons of Bajrang Dal to get away with burning Hussain's paintings. Ironically again, it is the absence of a firm anti-communal offensive that may have forced Hussain to tender an apology. Watching with dismay the 'ratha-yatra' of Hindu xenophobia marching without any resistance worth the name and therefore unsure of support from secular forces, intellectuals and dissenters (especially those belonging to the minority communities) are being forced to remain silent or even recant. The recent court judgment against several Muslims alleged to have participated in the 1993 Bombay riots stands out in sharp contrast with 'judicial inactivism' with regard to those Hindus who had been accused of even more heinous crimes during those riots.

Yet the juggernaut of the Sangh 'parivar' is a monster with feet of clay. Wherever its members have been in office, it has not taken long to demolish the myth of a disciplined and incorruptible force of Hindutva evangelists. In Gujarat, horse-trading among BJP MLAs led to the collapse of the party government there. In Delhi, what with the total collapse of the administration in the face of the dengue epidemic and a fast-deteriorating law and order situation, the BJP government is a divided house, with one group of ministers demanding the ousting of chief minister Sahib Singh Verma. In Maharashtra, apart from the well known links of the Shiv Sena leaders with the Mumbai underworld, the ego-clashes between the BJP and Shiv Sena ministers in the cabinet have already exposed the fragility of the image of strength and solidity. Even in Uttar Pradesh the BJP leadership is divided on caste lines, as is evident from their upper caste leaders' opposition to supporting Mayavati as chief minister.

Such being the situation in the Sangh 'parivar', there is no reason – except their own opportunism in the quest for power – why non-BJP forces should fight shy of launching an all-India campaign exposing the corruption and criminality among the leaders and ranks of the Hindutva brigade.

CURRENT STATISTICS

***EPW* Research Foundation**

That the physical infrastructure is emerging as a major constraint to economic growth is evident from the trends in output and supply indicators of the major infrastructure industries: inadequate power generation, growing shortage and rising distribution and transmission losses; reduced production and rising dependence on imports for petroleum and petroleum products; static road length but an explosion in the number of registered vehicles; and extremely poor addition to rolling stock in the railways. The only rapid expansion seen is in civil aviation and telecommunications.

Macroeconomic Indicators

Index Numbers of Wholesale Prices (1981-82 = 100)	Weights	Oct 26, 1996	Variation (Per Cent): Point-to-Point: Over Month	Over 12 Months: Latest	Over 12 Months: Previous	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
All Commodities	100.0	317 9	0.3	6.6	8.6	6.1	4.6	5.0	10.4	10.8	7.0
Primary Articles	32.3	331.1	0.1	7.5	9.1	7.5	5.4	5.4	12.7	11.5	3.0
Food Articles	17 4	377 2	1.3	10.6	7.7	9.4	8.7	9.8	11.9	4.4	5.4
Non-Food Articles	10.1	334.7	–2.3	3.3	12.5	5.5	0.1	–1.9	15.5	24.9	–1.4
Fuel, Power, Light and Lubricants	10.7	330.0	0.0	16.1	1.0	11.8	–0.1	3.7	2.4	13.1	15 2
Manufactured Products	57.0	308 1	0.5	4.3	9.7	4.3	5.0	5.0	10.7	9.9	7.9
Food Products	10 1	307 5	0.5	7 9	5.2	13.6	4.6	–0.7	8.1	12.3	6.8
Food Index (computed)	27.5	351.6	1.1	9.7	6.8	10.7	7.3	6.3	10.6	7.0	5.8
All Commodities (Average Basis) (April 6-October 26, 1996)	100.0	310 5	–	5.6	9.8	5.6	9.1	7.8	10.9	8.3	10.1

Cost of Living Indices	Latest Month	Variation (Per Cent): Point-to-Point: Over Month	Over 12 Months: Latest	Over 12 Months: Previous	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
Industrial Workers (1982=100)	343[8]	1.2	8.9	10.9	7 5	7.5	8.9	9.7	9.9	6.1
Urban Non-Man Emp (1984-85=100) (for 1995-96)	263[10]	0.8	9.6	10.1	7.8	8.1	–	9.9	8.3	6.8
Agri Lab (1986-87=100) (Link factor 5 89)	256[8]	1.6	7.1	14.4	8.0	8.1	7 2	11.1	11.2	0.6

Money and Banking (Rs crore)*	Oct 11, 1996	Variation: Over Month	Fiscal Year so far: 1996-97	Fiscal Year so far: 1995-96	1995-96	1994-95	1993-94
Money Supply (M_3)	643827	9432 (1.5)	41991 (7.0)	24890 (4.7)	70410 (13.2)	79241 (17.5)	73307 (19 3)
Currency with Public	123204	–33 (0.0)	5043 (4.3)	10129 (10.1)	17480 (17.4)	18698 (22 8)	14170 (20.9)
Deposits with Banks	514678	9655 (1.9)	34343 (7.1)	13559 (3.2)	52973 (12.4)	59685 (16.2)	57925 (18.7)
Net Bank Credit to Govt	276149	–3863 (–1 4)	18739 (7.3)	18025 (8.1)	34991 (15.7)	16328 (7.9)	28855 (16.3)
Bank Credit to Comml Sector	344717	7476 (2.2)	3815 (1.1)	15510 (5.3)	48179 (16.5)	48059 (19 6)	17161 (7.5)
Net Foreign Exchange Assets	85685	2344 (2.8)	8528 (11.1)	2015 (2.6)	–628 (–0 8)	25159 (47.8)	27674 (110 9)
Reserve Money (Oct 18)	189129	3739 (2 0)	–5207 (–2.7)	17937 (10.6)	25054 (14.8)	30611 (22.1)	27892 (25.2)
Net RBI Credit to Centre (Oct 18)	125075	645 (0.5)	6307 (5.3)	15444 (15.6)	19855 (20.1)	2130 (2.2)	260 (0.3)
Ad hoc Treasury Bills (Oct 25)	33245	4975	3800	10240	5965	1750	6300
Scheduled Commercial Banks (Oct 25)							
Deposits	463158	1413 (0.3)	29339 (6.8)	11542 (3.0)	46961 (12.1)	53629 (16.1)	52144 (18.6)
Advances	255256	4307 (1.7)	1241 0.5)	14380 (6.8)	42455 (20.1)	40638 (23.8)	11566 (7.3)
Non-Food Advances	246507	3994 (1 6)	2284 (0.9)	13525 (6.8)	44938 (22.5)	37798 (23.4)	8875 (5.8)
Investments	178267	1239 (0.7)	13485 (8.2)	8783 (5.9)	15529 (10.4)	14171 (10.5)	28641 (26.9)

* Based on March 31 figures, except for 1995-96 (full year) and 1996-97 where the banking data relate to March 29, 1996.

Index Numbers of Industrial Production (1980-81=100)	Weights	June 1996	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	Average for Full Fiscal Years: 1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
General Index	100.0	280.0	282 6(8 5)	260.5(14.6)	284.3(12.1)	253.7(9.4)	232.0(6.0)	218.9(2.3)	213.9(0.6)	212.6(8.2)
Mining and Quarrying	11.5	247.9	251 7(3.6)	243.0(15.7)	265.9(6.9)	248.8(7.5)	231.5(3.5)	223.7(0.6)	222.5(0.6)	221.2(4.5)
Manufacturing	77.1	277.8	278.0(10.4)	251.7(14.9)	278.8(13.6)	245.4(9.8)	223.5(6.1)	210.7(2.2)	206.2(–0.8)	207.8(9.0)
Electricity	11.4	327.1	344 5(2 2)	337.0(12 5)	340.3(8.2)	314.6(8.5)	290 0(7 4)	269.9(5 0)	257.0(8.5)	236.8(7.8)

Capital Market	Nov 6, 1996	Month Ago	Year Ago	1996-97 So Far: Trough	1996-97 So Far: Peak	1995-96 So Far: Trough	1995-96 So Far: Peak	End of Fiscal Year: 1995-96	1994-95	1993-94
BSE Sensitive Index (1978-79=100)	3067(–8.9)	3003	3365(–21.7)	3003	4069	2826	3584	3367(3.3)	3261(–13.7)	3779(65.7)
National Index (1983-84=100)	1372(–10.2)	1345	1528(–24.7)	1321	1843	1304	1691	1549(–3.5)	1606(–12.2)	1830(79.2)
BSE-200 (1989-90=100)	304(–9.8)	298	337(–29.6)	298	413	289	385	345 (–6.3)	368(–18.2)	450(92.3)
NSE (Nov 3, 1995=1000)	875	874	na	867	1196	na	na	na	na	na
Skindia GDR Index (Apr 15, 1994=100)	60(–16.1)	56	71(–31 7)	56	90	61	91	79(1.3)	78	na

Foreign Trade	September 1996	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93	1991-92
Exports: Rs crore	9277	56801 (20.9)	46973 (25.3)	106465 (28.8)	82674 (18.5)	69751 (29.9)	53688 (21.9)	44042 (35.3)
US $ mn	2596	16150 (9.1)	14805 (23.8)	31831 (20.9)	26331 (18.4)	22238 (20.0)	18537 (3.8)	17866 (–1.5)
Imports: Rs crore	10269	63182 (14.5)	55158 (35.1)	121647 (35.2)	89971 (23.1)	73101 (15.3)	63375 (32.4)	47851 (10.8)
US $ mn	2874	17964 (3.3)	17384 (33.6)	36370 (26.9)	28654 (22.9)	23306 (6.5)	21882 (12.7)	19411 (–19.4)
Non-POL US $ mn	2142	13548 (–5.1)	14271 (37.7)	28822 (26.8)	22727 (29.5)	17552 (11.2)	15782 (12.3)	14047 (–22.2)
Balance of Trade: Rs crore	–992	–6381	–8185	–15182	–7297	–3350	–9686	–3809
US $ mn	–277	–1814	–2580	–4539	–2324	–1068	–3345	–1545

Foreign Exchange Reserves (excluding gold)	Nov 1, 1996	Nov 3, 1995	Mar 31, 1996	Variation Over: Month Ago	Year Ago	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
Rs crore	68538	60602	58726	2693	7936	9812	–5426	–7302	18402	27430	5385
US $ mn	19202	17480	17126	710	1722	2076	–3336	–3690	5640	8724	731

Notes: (i) Superscript numeral denotes month to which figure relates, e g, superscript 8 stands for August. (ii) Figures in brackets are percentage variations over the period specified or over the comparable period of the previous year. na = not available.

Infrastructure: Power, Coal, Petroleum and Petroleum Products

	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91	1989-90	1988-89	1987-88	1986-87	1985-86	1980-81
A Power												
1 Installed plant capacity	na	92.2	86.9	82.4	78.4	74.7	71.8	65.5	60.5	55.0	52.3	33.3
('000 mw) (a+b)		(6.1)	(5.5)	(5.1)	(5.0)	(4.0)	(9.6)	(8 3)	(10.0)	(5.2)	(9.6)	(6.4)
a Public utilities	83.3	81.1	76.7	72.3	69.1	66.1	63.6	59.0	54.2	49.3	46.8	30.2
i) Hydro	21 0	20.8	20.4	19.6	19.2	18.8	18.3	17.8	17.3	16.2	15.5	11.8
ii) Thermal	60 1	58.1	54.3	50.7	48.1	45.8	43.8	39 7	35.6	31.8	30.0	17.6
iii) Nuclear	2.2	2.2	2.0	2.0	1 8	1.5	1.5	1.5	1.3	1.3	1.3	0.9
b Non-utilities	na	11.1	10.2	10.1	9.3	8.6	8.2	7.5	6.3	5.7	5.5	3.1
2 Capacity addition ('000 mw)												
a Target	2 2	4.8	4.4	4.5	3.8	4.2	4.9	4.5	4.9	3.4	4.5	na
b Actual	2.1	4.6	4.5	3.5	3.0	2.8	4.7	4.9	5.0	2 6	4.2	na
3 Energy generated (gross)	na	384.5	355.6	331.3	315 6	289.4	268.4	241.3	219 0	201.3	183.4	119.3
(billion KWH) (a+b)	na	(8 1)	(7.3)	(5 0)	(9.1)	(7.8)	(11 2)	(10.2)	(8.8)	(9.8)	(8.4)	(5.8)
a Public utilities	379 7	351.0	323.5	301.1	287 0	264 3	245 4	221 4	202.1	187.7	170.4	110.8
i) Hydro	72 2	82 5	70.4	69 8	72 8	71 7	62.1	57 9	47.5	53 8	51.0	46 5
ii) Thermal	299.5	262 9	247.7	224 5	208.7	186 5	178.7	157.7	149 6	128.9	114.4	61.3
iii) Nuclear	8.0	5 6	5 4	6 8	5 5	6 1	4.6	5 8	5 0	5.0	5 0	3.0
b Non-utilities	na	33.5	32.1	30 2	28 6	25.1	23.0	19.9	16.9	13.6	13 0	8.4
4 Captive power plants												
a Installed capacity ('000 mw)	na	na	10.2	10.0	9.3	8.6	8.1	7.5	6.3	5.7	5.5	3.1
			(1.0)	(8 0)	(8.0)	(6.1)	(7.9)	(18 6)	(11.0)	(3.8)	(7.5)	(8.5)
b Generation (Bn kwh)	na	na	32.1	31.4	28.6	25 1	23.2	19.9	16 9	13.6	13 0	8.4
			(2.4)	(9 6)	(13.9)	(8.1)	(16.6)	(17 9)	(24.5)	(4.1)	(5.6)	(2.8)
5 Power consumption (Bn kwh)	na	na	238.6	220.7	207 6	190.4	175.4	160.2	145.6	136.0	123.1	82.4
(public utilities)			(8.1)	(6 3)	(9.0)	(8 6)	(9.5)	(10.0)	(7.1)	(10.5)	(7.9)	(5.5)
Of which.												
a Domestic	na	na	43 3	39 7	35.9	32.0	29.6	24 8	22.1	19.3	17 3	9 2
b Commercial	na	na	14.1	12 7	12 0	11 2	9.5	9.9	8.8	7.8	7 3	4.7
c Industry	na	na	94.5	90 2	87.3	84.2	80 7	75 4	69.2	70 3	67.0	48.1
d Traction	na	na	5.6	5 1	4.5	4.1	4.1	3 8	3.6	3 2	3.2	2 3
e Agriculture	na	na	70.7	63.3	58 6	50.3	44 1	38 9	35.3	29.4	23 4	14.5
f Others	na	na	10.3	9 7	9.4	8 6	7 5	7 5	6.6	5 9	5.0	3.6
Power consumption pattern (percentage distribution)												
a Domestic	na	na	18.2	18 0	17 3	16.8	16.9	15 5	15 2	14 2	14.0	11 2
b Commercial	na	na	5.9	5 7	5 8	5 9	5.4	6 2	6 1	5.7	5.9	5.7
c Industry	na	na	39.6	40.9	42.0	44.2	46.0	47 1	47.5	51.7	54.5	58.4
d Traction	na	na	2.3	2.3	2.2	2.2	2.3	2.3	2.5	2.4	2 5	2.7
e Agriculture	na	na	29.7	28 7	28 2	26.4	25.1	24.3	24 2	21.7	19.1	17.6
f Others	na	na	4 3	4 4	4.5	4 5	4 3	4 6	4 5	4.3	4.0	4 4
6 Shortage of power (Bn kwh) (a–b)	35 7	25.0	23.8	25.5	22 6	21.0	19.6	17.3	23.0	18.1	13.4	15 2
a Demand	389 7	352 3	323.3	305.3	289.0	267.6	247.8	223 2	211 0	192.4	170 7	120 1
b Supply	354.0	327 3	299.5	279.8	266.4	246.6	228 2	205 9	188 0	174 3	157 3	104.9
7 Transmission and distribution												
losses. Bn kwh	na	na	69.4	61.5	61 4	56.5	53 3	46.0	42 2	37.8	34 2	21.3
Per cent of generation	na	na	21.5	21.8	22.8	22.9	22.9	22.3	22.1	21.5	21.7	20 6
B Coal and Lignite (Mn tonnes)	na	273.1	264 1	254 9	243.8	225 5	213.7	207.0	190.9	175.2	162.3	119.0
		(3 4)	(3.6)	(4 6)	(8.1)	(5 5)	(3.2)	(8.4)	(9.0)	(7.9)	(4.6)	(11.4)
a Coal	270.1	253.8	246.0	238.3	229 3	211.7	200 9	194.6	179.7	165.8	154 2	113.9
i) Coking coal	na	44.3	45.1	45.3	46.3	45.3	44 4	42.8	41.0	39 5	35.7	32.6
1 Metallurgical	na	24.6	26.0	25 7	26 3	24.1	24 5	25.2	26 3	27.9	29.1	24.6
2 Non-metallurgical	na	19.7	19.1	19 6	20.0	21.2	19.9	17.6	14.7	11.6	6.6	8.0
ii) Non-coking coal	na	209.6	201.0	192.9	183.0	166.4	156.5	151.9	138.7	126.2	118.6	81.3
b Lignite	na	19.3	18.1	16.6	14.6	13.8	12.8	12.4	11.2	9.4	8.1	5.1
C Petroleum and Products												
a Crude oil (Mn tonnes)	34.6	32.2	27 0	27.0	30 4	33.0	34.1	32.0	30.4	30.5	30.2	10 5
	(7.5)	(19 3)	(0.0)	(–11 2)	(–7 9)	(–3.2)	(6.6)	(5 3)	(–0.3)	(1 0)	(4.1)	(-11.0)
1 Domestic production												
i) On-shore	na	12.0	11.6	11.2	11.4	11.8	12.4	10.9	10.2	9.9	9.4	5.5
ii) Off-shore	na	20 2	15.4	15.8	19.0	21.2	21.7	21.1	20.2	20.6	20.8	5.0
2 Imports	na	27.3	30.8	29.2	24.0	20.7	19.5	17.8	17.7	15.5	15.1	16.2
3 Refinery throughput	na	56.3	54.3	53 5	51.4	51.8	51.9	48.8	47.8	45.7	42.9	25.8
b Petroleum products domestic	58.6	52 9	51.1	50.4	48.3	48.6	48.7	45.7	44.7	42.8	39.9	24.1
(Mn tonnes)	(10.8)	(3 5)	(1.4)	(4.3)	(–0.6)	(–0.2)	(6.6)	(2.2)	(4.4)	(7.3)	(20.2)	(–6.6)
1 Production												
i) Naphtha	na	5.7	4.7	4 6	4.5	4.9	5.2	5.4	5.5	5.4	5.0	2.1
ii) Kerosene	na	5 3	5.3	5.2	5.3	5.5	5.7	5.2	5.1	4.9	4.0	2.4
iii) High speed diesel oil	na	19.6	18 8	18.3	17.4	17.2	17.7	16.7	16.3	15.5	14.6	7.4
iv) Fuel oils	na	9 8	10.3	10 4	9.6	9.4	9.0	8.9	8.5	8.0	8.0	6.1
2 Imports	na	14.0	12 1	11.3	9.4	8.7	6.6	6.5	4.2	3.1	3.9	7.3
3 Exports	na	3.3	4.0	3.7	2.9	2.7	2.6	2.3	3.4	2.5	2.0	neg
4 Domestic consumption (excluding refinery fuel consumption)	na	65.5	60.8	58.9	57.0	55.0	54.1	50.1	46.4	43.7	40.9	30.9
i) Naphtha	na	3.4	3.2	3.4	3.5	3.4	3.4	3.4	2.9	3.2	3.1	2.3
ii) Kerosene	na	9.0	8.7	8.5	8.4	8.4	8.2	7.7	7.2	6.6	6.2	4.2
iii) High speed diesel oil	na	28.3	25.9	24.3	22.7	21.1	20.7	18.8	17.7	16.0	14.9	10.3
iv) Fuel oils	na	9.9	9.2	9.3	9.2	9.0	8.8	8.5	8.1	8.0	7.9	7.5

Infrastructure: Transport and Posts and Telecommunications

	1994-95	1993-94	1992-93	1991-92	1990-91	1989-90	1988-89	1987-88	1986-87	1985-86	1980-81
D Road											
a Length of roads ('000 kms)	na	na	na	2041	2037	1970	1905	1843	1781	1726	1491
of which: Surfaced	na	na	na	1071	1001	960	920	888	858	825	684
Length of national highways ('000 kms)	34.1	34.1	34.1	33.7	33.7	33.7	33.0	32.0	32.0	32.0	32.0
Length of state highways ('000 kms)	na	na	na	na	127.0	122.0	117.0	112.0	101.0	100.0	94.0
of which: Surfaced	na	na	na	na	122.0	118.0	114.0	109.0	98.0	97.0	90.0
b Number of registered vehicles ('000 nos)	na	26464	25299	23462	21310	19177	16920	14733	12539	10489	5336
of which: Goods vehicles	na	1791	1599	1528	1411	1290	1180	1101	971	848	542
E Railways											
a Route kilometres ('000 kms)	na	62.5	62.5	62.5	62.4	62.2	62.0	62.0	61.8	61.8	61.2
Broad gauge	na	37.8	36.5	35.1	34.9	34.5	34.1	33.8	33.7	33.7	31.8
Metre gauge	na	20.7	22.0	23.3	23.4	23.6	23.6	23.9	23.9	23.9	25.2
Narrow gauge	na	4.0	4.0	4.1	4.1	4.1	4.3	4.2	4.2	4.2	4.2
Route electrified	na	11.8	11.3	10.7	10.0	9.1	8.9	8.2	7.3	6.5	5.4
b No of locomotives	na	7202	7806	8268	8417	8590	8813	9158	9498	9919	10908
Steam	na	911	1725	2492	2915	3336	3826	4427	4950	5571	7469
Diesel	na	4174	4069	3905	3759	3610	3454	3298	3182	3046	2403
Electric	na	2117	2012	1871	1743	1644	1533	1433	1366	1302	1036
c No of passengers (mn) (excluding Calcutta metro)	3915	3708	3749	4049	3858	3653	3500	3792	3594	3433	3613
of which: suburban (excl Calcutta metro)	na	2302	2282	2412	2259	2109	2005	2155	2017	1884	2000
Passenger earnings (Rs cr)	5459	4891	4311	3682	3145	2666	2453	2058	1940	1719	828
Passenger kilometre (bn)	319.4	296.2	300.1	314.6	295.6	280.8	263.7	269.4	256.5	240.6	208.6
Average rate per passenger kilometre in paise	17.1	16.7	14.5	11.7	10.6	9.5	9.2	7.6	7.6	7.2	4.0
d Revenue earning freight traffic (Mn tonnes)	365.0	358.7	350.1	338.0	318.4	310.0	302.0	290.2	277.8	258.5	195.9
Total freight traffic (Mn tonnes)	381.6	377.5	370.9	360.0	341.4	334.3	329.5	318.5	307.3	286.4	220.0
Revenue earning goods carried (Billion tonne-kms)	249.6	252.4	252.4	250.2	235.8	229.6	222.4	222.5	214.1	196.6	147.7
Total goods traffic (Bn tonne-kms)	253.0	257.1	258.1	256.9	242.7	236.9	230.1	231.2	223.1	205.9	158.5
Earnings from goods carried (Rs cr)	13424	12276	10664	9293	8247	7461	6197	5839	4991	4232	1551
Average rate per tonne km paise	53.8	48.6	42.3	37.1	35.0	32.5	27.9	26.2	23.3	21.5	10.5
F Aviation#											
a Fleet strength: Air India	26	26	22	24	24	24	21	19	18	17	17
: Indian Airlines	62	58	57	55	59*	48*	48*	48*	50*	54	49
b Revenue tonne-km (crore) : Air India	138.49	109.38	109.05	114.05	138.10	144.20	137.23	138.61	120.63	111.00	98.01
: Indian Airlines	68.83	69.52	68.53	76.10	69.92	82.58	84.13	84.00	77.60	72.00	40.00
c No of passengers carried (lakh)											
: Air India	24.75	19.90	22.00	20.04	21.61	22.46	21.23	21.33	18.30	17.80	14.18
: Indian Airlines	76.35	78.83	78.44	88.86	78.66	98.49	101.10	104.40	98.75	91.30	54.10
Passengers handled at IAAI airports (lakh)	228.90	209.69	188.00	188.19	177.23	199.64	196.53	195.06	181.19	170.62	107.38
d Cargo handled at IAAI airports ('000 tonnes)	494.00	435.35	391.40	270.32	377.33	415.00	404.30	382.40	343.60	331.00	178.70
* includes leased aircrafts # excludes Vayudoot fleet which is being eased out.											
G Shipping											
a Total cargo traffic (Mn tonne)	197.30	179.26	166.58	156.64	151.67	147.57	147.06	134.60	124.36	119.61	80.27
Overseas	na	132.21	117.0	104.80	102.65	99.39	99.19	90.10	83.37	82.55	67.59
Coastal	na	47.05	49.25	51.85	49.01	48.19	47.87	44.50	41.00	37.07	12.68
b Total cargo traffic by port (Mn tonne)											
of which: Bombay	32.17	30.75	29.02	26.26	28.90	27.65	29.34	29.57	25.07	24.31	16.98
Visakhapatnam	30.03	25.60	22.77	21.52	19.42	21.12	20.37	15.37	15.04	15.91	10.12
Madras	29.46	26.54	25.33	25.05	24.52	23.94	23.56	22.82	19.78	18.15	10.38
Kandla	26.51	24.50	22.91	21.00	19.69	18.93	17.81	18.08	16.19	16.49	8.76
Calcutta/Haldia	20.50	18.50	18.34	16.00	14.95	14.69	14.22	13.07	12.07	12.13	9.27
Mormugoa	18.84	18.72	16.31	15.10	14.91	14.17	15.39	13.33	14.92	16.12	13.76
c No of ships*	na	437	443	441	415	418	405	378	362	359	383
d Shipping tonnage ('000 GRT)	na	6344	6267	6288	5939	6027	5922	5593	5469	5479	5679
* Data pertains to December end, for example, data for 1993-94 pertains to December end 1993 and so on.											
H Post and Telecommunications											
a Post offices ('000 nos)	na	152.8	152.0	150.3	149.0	147.2	145.2	144.8	144.0	144.4	139.0
a Rural	na	136.0	135.8	134.1	133.0	131.0	129.0	128.8	na	128.8	125.0
b Urban	na	16.8	16.3	16.2	16.0	16.2	16.2	16.0	na	15.6	14.0
b Telephone infrastructure											
Departmental exchanges (nos)	20000	18956	17455	16091	15091	14354	13725	12971	12297	11482	7871
Equipped switching capacity ('000)	12024	9795	7968	6782	5824	5266	4795	4329	3989	3666	na
Direct exchange lines ('000)	9795	8026	6797	5810	5075	4590	4167	3801	3486	3166	2150
Waiting list ('000)	2100	2497	2846	2287	1961	1713	1420	1287	1125	986	447
Registered demand ('000)	11895	10522	9643	8097	7036	6303	5586	5088	4611	4152	2597
Metered calls (mn)	na	46724	40130	30603	23897	21539	20276	19334	16484	13824	8466
c Telex working lines ('000)	na	47.2	49.1	48.6	46.7	44.5	41.3	37.3	34.0	30.5	19.3
d International telephone circuits (nos) (VSNL)	na	8520	4789	3331	2109	2049	1906	1527	1144	966	na
e International telephone paid minutes (mn) (VSNL)	na	742.8	614.2	473.9	369.4	306.6	235.8	177.1	128.9	109.4	na

ACC

Capacity Expansion

BETTER known as ACC, Associated Cement Companies is the country's largest cement manufacturer. This Tata group company saw turnover crossing the Rs 2000 crore-mark in 1995-96 with a 13.4 per cent rise in net sales over 1994-95. While sale of cement accounts for 85.1 per cent of the company's revenue, refractories contribute 4.9 per cent and trading of cement/other products account for another 6.6 per cent.

On a 15.5 per cent increase in value of production during the year, the company's total manufacturing expenses increased by a mere 3.2 per cent and accounted for a lower 46.8 per cent of value of production as compared to 52.4 per cent last year. The main raw materials consumed by the company are limestone, granulated slag, gypsum and clay. Helped by the commissioning of the new 1.2 million tonnes per annum (mtpa) clinkering plant at Kymore (Madhya Pradesh), production of cement was higher by 5.4 per cent at 8.93 million tonnes while sale increased by 3.8 per cent to 8.84 million tonnes. The company also achieved the distinction of becoming the largest supplier of refractory products in the country with despatches crossing 108,000 tonnes during the year under review.

A proportionately lower increase in remuneration to employees (up 17.4 per cent) and other expenses (up 14.7 per cent) boosted the operating profit by a phenomenal 57.5 per cent over the previous year, taking the operating profit margin to 19.8 per cent from 14.2 per cent a year ago.

Though the company repaid a considerable part of its term loans during the year, interest cost increased by 19.8 per cent mainly due to a sharp rise in inventory which increased by 38.8 per cent and accounted for 13.5 per cent of sales as compared to 11 per cent in the previous year. Following the commissioning of the new clinker plant, depreciation charge for the year was also higher by 48.5 per cent. Despite a tax provision of Rs 59.5 crore (1994-95: Rs 50 lakh) the company's bottom-line spurted by 45.3 per cent with the net profit margin improving from 8.8 per cent last year to 11.3 per cent. Return on investments was also higher at 16 per cent compared to 10.8 per cent last year while gross value added increased 51 per cent over the previous year and accounted for 40.4 per cent of gross fixed assets (1994-95: 30.4 per cent).

The earnings per share of the company improved from Rs 194.75 (face value Rs 100) last year to Rs 267.9 and its book value jumped from Rs 742.7 to Rs 1,113.7. Encouraged by its improved performance, the company declared a bonus issue in the ratio of three shares for every five shares held. It also raised the dividend to 70 per cent from 50 per cent last year.

During the year under review, the company introduced a new technology of monolithic lining of ladles in association with Intocast, AG, Germany. The technology finds application in the steel industry. With the commissioning of the synthetic ferric oxide plant at Falta (West Bengal) in September 1995, the largest size roaster (installed for the first time) in the country is now under stabilisation.

With demand for cement on the rise, the company plans to increase its capacity by setting up a new 2 mtpa plant at Wadi. It is also setting up another 1.3 mtpa clinkering unit at Kymore at an estimated cost of Rs 199 crore. The project is expected to be completed in the first half of 1997-98.

As power is a significant factor for production of cement, ACC is making substantial investment in captive power generating facilities of 25 mw each at Jamul and Keymore in Madhya Pradesh. These are expected to be completed in the second half of 1997-98 and will cater to 80 per cent of the company's power requirements.

Meanwhile, moving into its diamond jubilee year, the company has notched up a 4.3 per cent increase in production of cement which stood at 3.14 mtpa in the first four months of the current year as compared to 3.01 mtpa in the corresponding period last year.

BAJAJ AUTO

Market Leader

The largest player in the two- and three-wheeler industry in the country, Bajaj Auto, further consolidated its dominant position in 1995-96 with a 27.8 per cent increase in sales revenue over the previous year. This was considerably higher than the industry average of 21.1 per cent. Value of production was also higher by 28.1 per cent over the previous year and the company managed to increase its market share in the two-wheeler segment to 50 per cent from 48.6 per cent a year ago. Bajaj Auto is followed by TVS-Suzuki which has a 15.5 per cent market share and LML which has a 9 per cent market share. After crossing the one million mark in 1994-95, production of two-wheelers by Bajaj Auto further increased by 13.9 per cent, while that of three wheelers rose by 24.2 per cent. As in the two-wheeler category, Bajaj Auto dominates in the three-wheeler segment with an 87.1 per cent market share and is followed by Greaves (offering the 'Garuda') with a 6.8 per cent share and Scooter India with a 6.1 per cent share.

The cash-rich position of the company was further strengthened with the repatriation of the balance amount of its GDR issue proceeds (Rs 126 crore) which helped it to comfortably tide over the tight-liquidity position obtaining in the economy. This is reflected in the other income component of its total income, which rose by 67.5 per cent during 1995-96 and accounted for 8.1 per cent of total income (1994-95: 6.3 per cent).

Following a lower increase in operating expenses, the company's operating profit increased by 33.8 per cent over the previous year. The higher offtake resulted in a fall in inventory level by 13.9 per cent compared to a 58 per cent increase in the previous year. Consequently, interest cost for the year actually fell by 13.6 per cent, confirming the company's good liquidity position. A proportionally lower increase in depreciation (up 25.7 per cent) and tax provision (up 23.3 per cent) also helped the company post a comfortable 34.7 per cent rise in net profit during the year under review.

Exports of the company increased by 46.6 per cent over the previous year. Gross capital formation increased by 32.1 per cent during the year, improving considerably over a 16.8 per cent rise last year. In keeping with its past policy, the company has retained up to 80 per cent of net profits despite an increase in dividend rate to 100 per cent from 80 per cent last year. Consequently, the company's book value was further strengthened to Rs 177 from Rs 135 a year ago. Earnings per share (EPS) also jumped from Rs 38.9 to Rs 52.4 over the same period. Currently quoting at around Rs 927 on the bourses, the company's share price discounts its 1995-96 earnings a comfortable 17.7 times.

During 1996-97 the company plans to introduce a 125 cc 2-stroke motorcycle, a 60 cc two-wheeler with modern styling (Cygnet), the new M-80 motorbike, the new Classic and a diesel rear-engine autorickshaw. For the first four months of the current year the company has already notched up a turnover of Rs 1,134 crore, a rise of 29 per cent over the corresponding period last year.

TATA CHEMICALS

From Soda Ash to Urea

The largest player in the soda ash industry, Tata Chemicals, has a 42 per cent share of the market. However the company began drawing the larger part of its revenue from fertilisers in 1995-96. The new fertiliser plant, set up in Babrala (Uttar Pradesh) with a capacity of 7,42,500 tonnes per annum and commissioned in December 1994, operated at 113 per cent of its capacity in its very first full year of operations.

During 1995-96, the company saw a 107.1 per cent rise in sales and a 113.8 per cent increase in value of production. Production of soda ash increased by 7.1 per cent over the previous year and sale quantity was higher by 5.9 per cent. Due to better realisations from soda ash following the increased demand, sale revenue increased by more than 20 per cent over the same period Production of urea increased sharply from 1,74,630 tonnes in 1994-95 to 8,40,128 tonnes during the year under review and sale was also higher at 7,84,486 tonnes (1994-95: 1,66,190 tonnes).

Despite the sharp increase in value of production (VOP), total manufacturing expenses increased by a lower 49.1 per cent and accounted for 32.9 per cent of VOP

(Rs lakh)

Financial Indicators	ACC		Bajaj Auto		Tata Chemicals	
	March 1996	March 1995	March 1996	March 1995	March 1996	March 1995
Income/appropriations						
1 Net sales	201384	177614	228302	178690	140256	67725
2 Value of production	203865	176503	228862	178623	142002	66432
3 Other Income	3528	3832	20207	12064	4478	4252
4 *Total income*	207393	180335	249069	190687	146480	70684
5 Raw materials/Stores and spares consumed	49420	38812	129435	99977	28954	19435
6 Other manufacturing expenses	45980	53613	17159	14216	17781	11911
7 Remuneration to employees	14493	12342	17266	12792	4582	4053
8 Other expenses	57691	50287	18797	14050	18783	3463
9 *Operating profit*	39809	25281	66412	49652	76380	31822
10 Interest	9809	8185	990	1148	23596	9681
11 *Gross profit*	34946	19915	66755	51174	51920	33272
12 Depreciation	6318	4254	7371	5866	10489	4601
13 *Profit before tax*	28628	15661	59376	45308	41431	28671
14 Tax provision	5950	50	17692	14345	2200	6
15 *Profit after tax*	22678	15611	41684	30958	39231	28665
16 Dividends	5824	3918	7959	6162	11747	7342
17 Retained profit	16854	11698	33725	24796	27484	21323
Liabilities/assets						
18 Paid-up capital	8455	8016	7959	7959	18069	11288
19 Reserves and surplus	85813	51520	132870	99146	113349	92630
20 Long term loans	42759	52376	4619	5556	132987	138859
21 Short term loans	21197	22986	15890	14512	21905	13278
22 Of which bank borrowings	17550	19432	1037	2234	13405	12158
23 Gross fixed assets	159543	140867	121827	92198	224475	209747
24 Accumulated depreciation	50588	44747	65852	58738	36872	26717
25 Inventories	27178	19584	21934	25484	21840	20787
26 Total assets/liabilities	217925	184227	247325	187084	316858	280818
Miscellaneous items						
27 Excise duty	32915	28970	43233	35713	11281	9292
28 Gross value added	64468	42766	74849	61015	75851	54843
29 Total foreign exchange income	4520	4730	20253	13820	1495	368
30 Total foreign exchange outgo	6976	3333	21555	14193	5388	5423
Key financial and performance ratios						
31 Turnover ratio (sales to total assets) (%)	92.41	96.41	92.31	95.51	44.26	24.12
32 Sales to total net assets (%)	127.27	131.67	141.51	140.51	48.99	26.45
33 Gross value added to gross fixed assets (%)	40.41	30.36	61.44	66.18	33.79	26.15
34 Return on investment (gross profit to total assets) (%)	16.04	10.81	26.99	27.35	16.39	11.85
35 Gross profit to sales (gross margin) (%)	17.35	11.21	29.24	28.64	37.02	49.13
36 Operating profit to sales (%)	19.77	14.23	29.09	27.79	54.46	46.99
37 Profit before tax to sales (%)	14.22	8.82	26.01	25.35	29.54	42.33
38 Tax provision to profit before tax (%)	20.78	0.32	29.80	31.66	5.31	0.02
39 Profit after tax to net worth (return on equity) (%)	24.05	26.22	29.60	28.90	29.85	27.68
40 Dividend (%)	70.00	50.00	100.00	80.00	65.00	65.00
41 Earning per share (Rs)	267.90	194.75	52.37	38.90	21.71	25.39
42 Book value per share (Rs)	1113.74	742.71	176.94	134.57	72.73	92 06
43 P/E ratio (based on latest and corresponding last year's price)	6.27	15.93	17.70	21.60	9.49	8.82
44 Debt-equity ratio (adjusted for revaluation) (%)	45.35	87.97	3.28	5.19	101.19	133.62
45 Short term bank borrowings to inventories (%)	64.57	99.22	4.73	8.77	61.38	58.49
46 Sundry creditors to sundry debtors (%)	177.51	222.69	204.07	200.78	27.41	49.37
47 Total remuneration to employees to gross value added (%)	22.48	28.86	23.07	20.97	6.04	7.39
48 Total remuneration to employees to value of production (%)	7.11	6.99	7.64	7.16	3.23	6.10
49 Gross fixed assets formation (%)	13.27	22.00	32.14	16.77	7.02	7.80
50 Growth in inventories (%)	38.78	-2.25	-13.93	57.96	5.07	73.53

compared to 47.2 per cent in the previous year. The main raw materials required by the company include salt, coke, natural gas, limestone, liquid ammonia, ammonium chloride and sulphate of ammonia. Among these, salt is a major raw material as most of the other chemicals manufactured by the company are derived from it. Similar lower increases of 13.1 per cent in remuneration to employees and 13.3 in other expenses helped the company post a phenomenal 140 per cent rise in operating profit. There was a non-operating loss of Rs 8.6 crore in 1995-96 mainly due to loss on sale of investments and prior year adjustments and this limited the rise in net profit. Compared to this, there was a non-operating profit of Rs 111.3 crore in the previous year due to sale of assets. A substantial spurt in interest cost (up 143.7 per cent), depreciation (up 128 per cent) and a tax provision of Rs 22 crore (1994-95: nil). further restricted the rise in the bottomline to 36.9 per cent.

After issuing bonus shares in the previous year in the ratio of three shares for every five held, in the previous year, the company maintained dividend at last year's level of 65 per cent. Consequently, dividend outgo was substantially higher at Rs 117.5 crore (1994-95: Rs 73.4 crore).

Due to erratic availability of natural gas for the fertiliser plant, the company has set up a naphtha desulphurisation unit in order to operate the new plant with a mixed feedstock of natural gas and naphtha. The purge gas recovery plant was also completed during the year and both these have been connected to the main plant during the annual shut down (for repairs and maintenance) in April 1996. Major components of the Mithapur Vikas Plan, an extensive modernisation and expansion plan undertaken by the company, were also completed with the commissioning of the co-generation plant in May 1995 and the 100 tonnes per day new membrane cell caustic soda plant in July/August 1995. The capacity of the soda ash plant is also being expanded to one million tonnes per annum over the next 12 months. The company has, meanwhile, initiated a Rs 455 crore modernisation programme at Mithapur and this is expected to be completed over the next two to three years. The company is also planning a major diversification into power generation and will be setting up wind energy generating capacity at its 37,000 acre site at Mithapur.

For the first quarter of the current year, 1996-97, the company has reported a 17 per cent increase in sales to Rs 521 crore.

Meanwhile, the company is facing a total income tax liability of over Rs 200 crore pertaining to assessment years 1992-93, 1993-94 and 1994-95. This was due to rejection of certain deductions claimed by the company with regard to its fertiliser unit. If the claim materialises, it could be a serious drain on the company's resources. Though it has appealed to the Income-tax Appellate Tribunal against the I-T Department, the company's share price has plummeted on the Bombay Stock Exchange to around Rs 206 from Rs 224 a year ago.

stands a testimony to our growing concern to reward our shareholders.

HI-TECH FOR CUSTOMER SATISFACTION

Information technology has a crucial role to play in the success of banks as elsewhere. It is marching as a major instrument to meet the challenges in terms of profitability and productivity. It is increasingly perceived as a device to transform enterprises than just a vehicle for automating functional tasks Today's competitive milieu is forcing banks to distinguish them from others through quality services. Throes of competition have forced the banks far from being mere mobilisers of resources and purveyors of credit into a host of new services like personal banking, Credit Card support, tele banking or the like. The push from the technology and the pull from competition have brought about radical changes albeit with initial hiccups and there is continuous revolution in this area Newer and better technologies are knocking the doors everyday and we fully recognise that it is important to stay alive to these changes. I am happy that there is a greater and welcome awareness among my colleagues that we have come to such a pass that a growing organisation like ours could ill afford to function without information technology

It is also well recognised that a bank which is not offering services that computerisation brings in, will not have a promising future Computerisation and modernisation of our operations therefore continue to receive our pointed attention just to meet the twin objectives of customer satisfaction and informed managerial decision making With a view to providing quicker and responsive customer service and staying alive to the changing environment, the Bank has increased the number of computerised branches The Bank has already fully computerised 32 branches. Plans are on hand to computerise more branches during the current year Foreign Exchange operations at our International Division, Madras have been fully computerised with on line computer system. The foreign exchange operations of four B category branches have also been computerised during the year At the Central Office, maximum level of computerisation has been reached Moves are on to link the branches through updated network system

NEW FACE OF BANKING

Economic liberalisation measures ushered in since mid '91 have substantially transformed the banking turf and its complexion Banking reforms have been in place for the past few years in the form of sharpened prudential norms, strengthening of the supervisory framework by the central banking authorities, dilution in the regulation of interest rates, upgradation of technology, softening of statutory pre-emptions, more transparent accounting practices, relaxation in the forex regime, entry of new private sector banks and foreign banks, and the like Market related reforms have brought in train, tremendous pressures on banks as they have to confront the intensity of business competition on both sides of the equation resulting in change in their style of functioning It is a tribute to the bankers to have deftly managed and adjusted to the twists and turns in the market Perhaps it is time that a level playing field was also ensured for all the players in the banking scene especially when uniform standards are sought to be applied regardless of banks' ownership and origin. Such equal opportunities will bring out the best in the system and ensure the Survival of the Fittest

FUTURE TRENDS

Economic growth is expected to be firm in the medium term and we are hopeful of riding on the resultant demand for banking services to improve our bottom line. We would focus increased attention to capitalise the opportunities to finance rapidly emerging middle level borrowers, small and dynamic new firms, mid-sized corporates, upcoming traders and growing service industry. Given the draft on the resources available to the banks thanks to the extant statutory pre-emptions and also the increasing trends in the cost of funds, one cannot foresee softening of the interest rates in the short run and the margins are also likely to be under pressure in the current fiscal as well. Managing cost and productivity will, therefore, continue to be our main refrain We are extremely alert over the emerging market forces demanding our constant attention. We believe that we have resilience and vibrancy to absorb such changes.

NO EXCESS IN CUSTOMER SERVICE

In the present day market driven economy, it is the customer who calls the tune. The success of a business is very much determined by the degree of success achieved in satisfying the customer, more so in the banking. I would define our success in terms of profitability and customers' perception about us, not necessarily by size or volume. Profit comes from the satisfied customers boasting about our services and schemes and I would very much like such tribes multiplying. We have always been tailoring our services to meet customers' growing expectations and aspirations. Luckily, my colleagues know only too well that the Bank driven by customers satisfaction will alone have a competitive advantage. In customer service, my colleagues will aver that there is no excess as such and they are very conscious that the customers do not want to be treated enmasse but as individuals.

BUILDING UP PEOPLE

Banking, in the main, is all about total commitment to anticipating and serving the customers' needs and that is exactly what we are upto. This brings us to the quality of manpower that is not only allowed to exhibit its full creativity and talent but enlarged, encouraged and rewarded for being so. Our success in the ultimate analysis, hinges on the hardwork and commitment of the members of the KVB family. In view of the seismic changes in the environment and growing complexities in the banking operations, there is an imperative need for training the staff to enable them to acquire the needed skills to sharpen their competitiveness, excellence, refinement and innovation in their respective work areas Necessary inputs are therefore being provided to them to develop their individual skills through extensive training programmes in all vital areas such as credit appraisal, Forex, use of modern technology and inter personal relationship.

Any business unit can accomplish its work only as well as its employees can and this presupposes a motivated staff ready for attitudinal changes A lot has therefore been done in this area The welfare of the employees has always been the lead agenda of the Management which has been amply demonstrated time and again. I am very happy that all my colleagues are on the right course to face the impending changes in the operational environment Balance Sheet is not the only reflection of our Bank's success, but those who are hidden behind it that matter most - 2300 plus KVB family members and of course, your dynamic and enlightened Board of Directors to guide the fortunes of the Bank

GRATEFUL ACKNOWLEDGEMENTS

I record with deep sense of sorrow the sad demise of Shri M V LAKSHMINARAYANA GUPTHA, President of the Bank (1963-1970) on 25th February 1996 Let us all reverentially recall the sterling services rendered by him for a period spanning more than four decades for the sustained growth of the Bank

The Bank has been very fortunate to have committed, articulate and well meaning Directors on your Board and because of their matured counsel and guidance, the Bank has reached a level in which it finds itself today. It has been my very great privilege to enjoy their support, confidence and guidance and I hasten to thank my illustrious colleagues on the Board. I would look forward to having the continued benefit of their unstinted support, timely guidance and beneficial advice in abundant measure for taking your Bank to still a higher growth point. I would happily place on record the valuable services rendered by Sarvashri S Rangarajan, Additional Director and G Gopalakrishna, Alternate Additional Director of the Reserve Bank of India who have ceased to be in the Bank's Board since we met last The Reserve Bank of India has appointed Shri R Sahadeva as Additional Director and Shri F R Joseph as Alternate Additional Director on the Board with effect from 12th October 1995. I take this opportunity to welcome them to our Board.

We continue to receive valuable advice, good guidance and timely support from the Reserve Bank of India and its nominees on the Board and I gratefully acknowledge their support and encouragement.

I also take this opportunity to thank IBA, IDBI, SIDBI, NABARD, SEBI, LIC, UTI, GIC, DFHI, ECGC, DICGC, STCI, ICICI, FEDAI, NSE, Madras Stock Exchange, Coimbatore Stock Exchange and the banking fraternity at large for their co-operation and assistance given to your Bank. I earnestly look forward to having the benefit of their ongoing support. On an occasion like this, it is my pleasurable duty to thank profusely our valued clients on behalf of the Board and on my own for their continued support, patronage and encouragement but for which the Bank could not have emerged strong with healthy fundamentals.

The Bank is proud of having you as its shareholders and you should also be equally proud of being the shareholders of the Bank which is always on the move. The loyalty of the shareholders has been the main driving force for the Management Your interest has always been and will ever be high on our agenda. Your expectations and aspirations to take the Bank to a still higher growth level will find expression in our total commitment for the same and your Bank will always be shareholder and customer-intimate Bank. It is my great pleasure to thank our shareholders for their enduring trust and abiding confidence in the Management which only have stood us in good stead in taking the Bank to the frontline

It is in the fitness of things that I should place on record my deep appreciation of the valuable contribution made by all the members of our staff for the sustained growth of the Bank I have abundant confidence in my colleagues that they would be second to none in their efforts to take the Bank to a very prime position and to copewith the urgencies and requirements of business development

CHANGE IS REPETITIVE

Banking needs are changing and we are cognisant that we have to move very fast and without complacency to seize and capture the available business opportunities We have the requisite courage to take responsibility to experiment in altogether different environs In today's demanding world, we will be able to survive only with discretion and sharp edged decisions. Prudence, thrift and ingenuity will have to be the watch words and we are conscious that those who adopt them will prosper and we are imbibing these attributes in our stride. In the fast changing world, change is repetitive Change is the only phenomenon not subject to change Change is at times uncomfortable It is but in one's nature to feel secured with what is familiar and feel rather threatened by any change, but the genius lies in our anticipating and responding to change not only to thrive but thrive adroitly. We are in the twilight years to reach the end of the Millennium by when your Bank should be riding high with towering business volume and emerging as a model bank with a pre-eminent position Our strategies may change in tandem with changes but our ethos and our commitments to our cherished values will not. We will certainly strike a golden mean as between continuity and change

It is indeed very nice to have you all today for the Annual General Meeting of the Bank Good Luck to you.

Thank you.

Note · This does not purport to be a record of the proceedings of the 77th Annual General Meeting of the Bank.

Credit Policy Skirts Basic Issue

With the latest monetary policy announcement confining itself to the essentials of the stabilisation and structural adjustment programme, the mismatch between an abundance of liquidity in the system and industry craving for funds for investment has remained unaddressed. Money market developments, after the credit policy announcement particularly, have once again thrown into sharp focus the narrow groove in which the banking system has got stuck and the rigidity in the operations of banks and financial institutions encouraged by the limited perspective of financial sector reforms.

I
The Policy Backdrop

THE initial expectations regarding the monetary policy measures that were due to be announced in mid-month and the subsequent easing of liquidity beyond market expectations dominated the money market behaviour during October. However, with the policy confining itself to the essentials of the stabilisation and structural adjustment programme, the slip between the cup and the lip, the mismatch between the abundance of liquidity and the industry craving for investible resources at reasonable cost has remained to be addressed. The immediate effect of the policy has been seen in a falling trend in short-term interest rates and a further boost to the government securities market. The authorities have recognised the need for banks to provide adequate credit to the productive sectors and bring down their lending rates, but the measures taken such as the two percentage points reduction in the cash reserve ratio (CRR), raising of the export credit target from 10 to 12 per cent of each bank's net credit, reducing somewhat the cost of export credit, permitting banks to lend their FCNR(B) funds as foreign currency denominated loans for borrowers' foreign currency or rupee requirements and the one percentage point reduction in deposit rates are found to be insufficient, though essential, to achieve a sharp reduction in the average lending rates of banks and financial institutions and to induce banks to expand their credit base rather than focus on treasury operations and dealings in government securities. Such an attitudinal shift amongst banks cannot be expected to take place also because the policy measures avowedly seek to bring about closer links between the money, capital, gilt-edged and foreign exchange markets. The low CRR-low refinance regime now propounded, the facility for foreign currency loans to domestic borrowers irrespective of whether for their foreign currency or rupee requirements, the total delinking of the issue of commercial paper (CP) from cash credit for large borrowers, the abolition of selective credit controls on almost all sensitive commodities (except the buffer stock and unreleased stocks of sugar with sugar mills) and, above all, the permission granted to banks to purchase shares and debentures in the secondary market fall into this category of the authorities' attempts at integrating markets which in fact have been responsible for taking banks away from their traditional role of providing commercial credit and promoting real sector growth.

The money market developments, particularly after the credit policy announcement, have brought into sharp focus the narrow groove into which the banking system has fallen and the rigidity in the operations of banks and financial institutions (FIs) which has been generated by the narrow perspectives inspiring financial sector reforms. Banks have continued to surrender the liquidity released by the RBI back to it by slashing their use of refinance. Between March 31 and October 18, banks (including NABARD) reduced their borrowing from RBI by Rs 14,458 crore, thus offsetting the benefit of CRR reductions. Between March 29 and October 25, the expansion in non-food credit of scheduled commercial banks dwindled to Rs 2,284 crore against Rs 13,525 crore in the corresponding period of the previous year, while their investment in government securities went the opposite way: an increase of Rs 14,156 crore against Rs 8,643 crore last year.

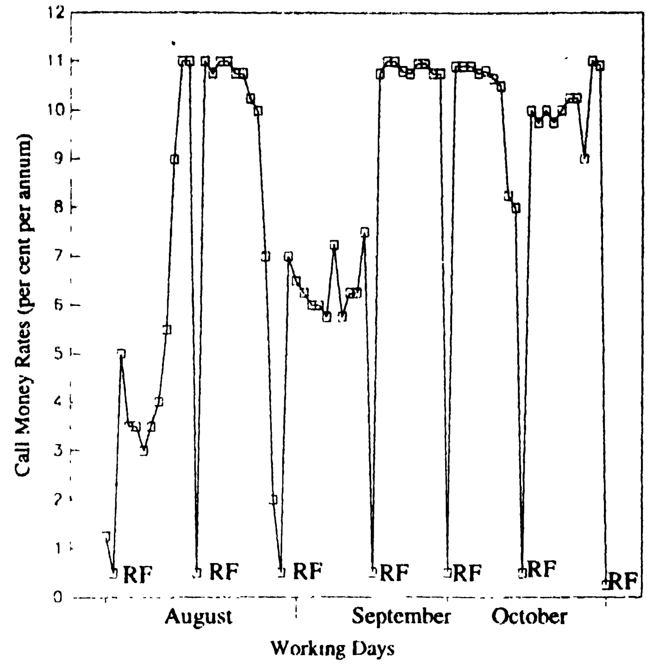
Apart from lending activity taking a back seat, the relative rigidity in the lending rate structures of banks and FIs has resulted in the cost of financial intermediation playing a deleterious role in sustaining industrial growth. There was a time when high reserve and liquidity ratios as also cross-subsidisation in interest rates were claimed as constraints on reducing the banks' general lending rates, but now the competitive cost of deposits and other funds, rigorous application of capital adequacy and provisioning norms and the dominance of the bottomline in factoring lending rates have introduced considerable rigidities in the rate structures of banks and FIs. The declines in inflation rate, sizeable reductions in CRR and SLR, narrowing of the degree of cross-subsidisation in interest rates and the abundance of liquidity have all been ignored or overwhelmed by the free play of market forces which have spawned those rigidities – a distinct lesson in market failure which the authorities have failed to recognise and effectively act upon. Though the banks and FIs have reduced their prime lending rates (PLRs) by 0.5 to 1 percentage point as a token gesture to the mounting pressure from the RBI and the ministry of finance, they find it exceedingly difficult to initiate any true and meaningful reductions in their loan rates as they have committed themselves to high cost borrowings. Competitively high deposit rates for above one-year maturity paid by banks, such high rates as 16 to 16.5 per cent or over paid by IDBI and other FIs on their funds, and deep-discount and such other immeasurably high-cost sources of long-term borrowings would persist as serious constraints on effecting any significant downward adjustment in lending rates in the foreseeable future. This is compounded by the vicious circle that has set in, in that the adverse consequence of prohibitively high interest rates is already reflected in the distinct slow-down of industrial activity which in turn has probably resulted in reduced demand for bank credit. The way out for breaking the vicious circle would lie in providing a decisive expansionary impulse from fiscal and monetary policies in a co-ordinated manner. To achieve it the authorities will have to live down their commitment to the conventional variety of structural adjustment which has been so harmful to the working of the economy and responsible for divergences between financial sector and real sector activities.

II
Money and Foreign Exchange Markets

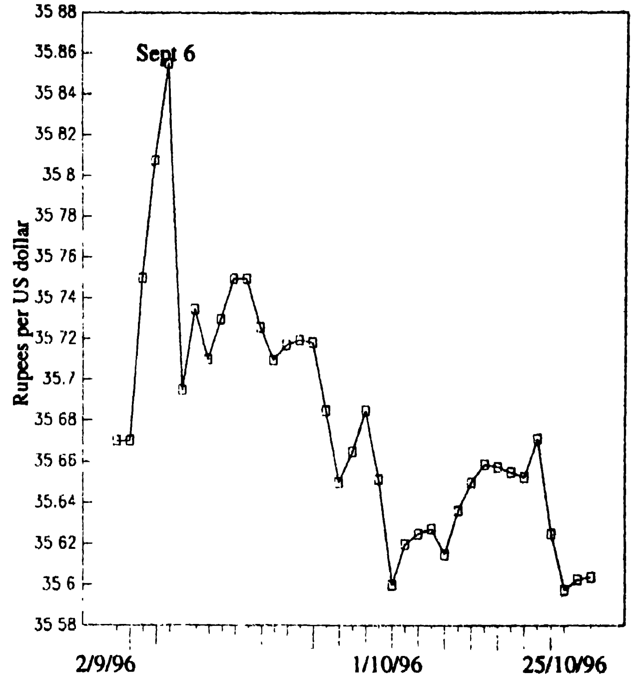
With robust deposit growth and the lack of credit expansion, the liquidity situation remained comfortable throughout the month. Having completed over 75 per cent of its borrowing programme, by the early part of October, the government too preferred to wait a while so as to benefit from the expected declines in interest rates on the rest of its borrowings. A remarkable aspect was the marked stability displayed by the call money rates which generally hovered between 9 and 10.50 per cent during most period of the month (Table 1). The coefficient of variation (in percentages) fell from 60 in September to 15 in October (Table 2).

Opening at 10.5 per cent on October 1 and ruling at around that level in the first week, the call rates began to edge downwards to

Graph A: Daily Top-End Quotations of Call Money Rates, August 1996 to October 1996



Graph B: Spot Quotations for the US Dollar in the Domestic Inter-Bank Market



about 8 per cent by October 9, following widespread expectations of a CRR cut. Until the credit policy announcement on October 19, the rate ruled between 9 and 10.25 per cent. A large part of the call money borrowing, mostly by foreign and private banks, was utilised for funding the purchase of government securities with the sole purpose of booking profits after the credit policy.

Following the two percentage points cut in CRR, the market psychology became one of easiness but the overnight rates remained at around 9 to 10 per cent as the banks had surrendered almost all of their refinance facility to the RBI and as the first tranche of the four-step cut in CRR of 0.5 percentage each was becoming effective only on October 26; thereafter call rates did fall to a range of 2 to 4 per cent towards the end of the month (Graph A).

Forex market

The exchange rate for the rupee also remained unusually stable during the month with the rupee-US dollar rate remaining range-bound at Rs 35.60/70 (Graph B). The relative stability in exchange rate was due to the RBI's constant purchase operations whenever GDR money inflows took place. In the initial part of the month, there were reports of GDR inflows which brought down the RBI reference rate from Rs 35.76 per US dollar to Rs 35.62/63 until October 9 and thereafter to Rs 35.63/66 until October 18. During the week ended October 11, the RBI foreign currency assets also expanded by $290 million. Besides, SBI which raised GDRs worth $369.95 million at Rs 35.51 started bringing back the dollars in tranches so as not to destabilise the exchange rate. SBI sold some forex at Rs 35 61, thereby reaping some capital gains.

The nominal exchange rate began to appreciate and touched Rs 35.58-35.61 a US dollar after October 22 due to the announcement effect of allowing banks to use their FCNR(B) deposits totalling about $ 5.7 billion as foreign currency loans or rupee loans to corporates. Secondly, the forex market witnessed sudden surge in capital inflows on account of FIIs' net investment of $ 142 million immediately after the credit policy announcement during October 19 to 24 as against that of a meagre $ 2 million during October 1 to 18.

The most important consequence of the new credit policy on the forex market was the

Table 2: Daily Quotations of Highs and Lows of Call Rates in Per Cent Per Annum: Simple Statistical Characteristics

	All Four Weeks of the Month	October 1996 Week Ended				All Four Weeks of the Month	September 1996 Week Ended			
		25*	18	11*	4		26*	20	12*	6
Mean	9.36	9.49	9 47	8.05	10 70	6.15	5.45	10.55	7.94	2.95
Standard Deviation	1.42	1.10	0 46	1.79	0.19	3 70	3.66	0.42	2.36	0.99
Coefficient of variation (percentages)	15.15	11 61	4.82	22.26	1 79	60.14	67.16	3 94	29.77	33.77

* Data for reporting Fridays (RF) are omitted

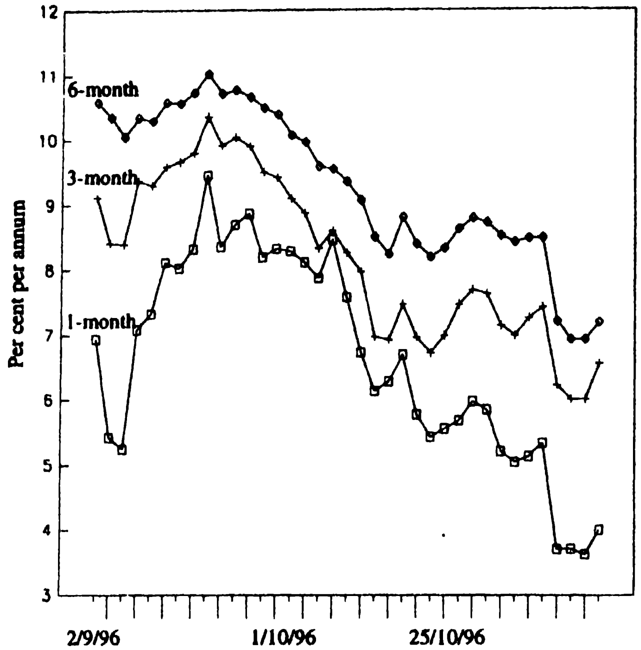
Table 1: Call Money Rates

(Per cent per annum)

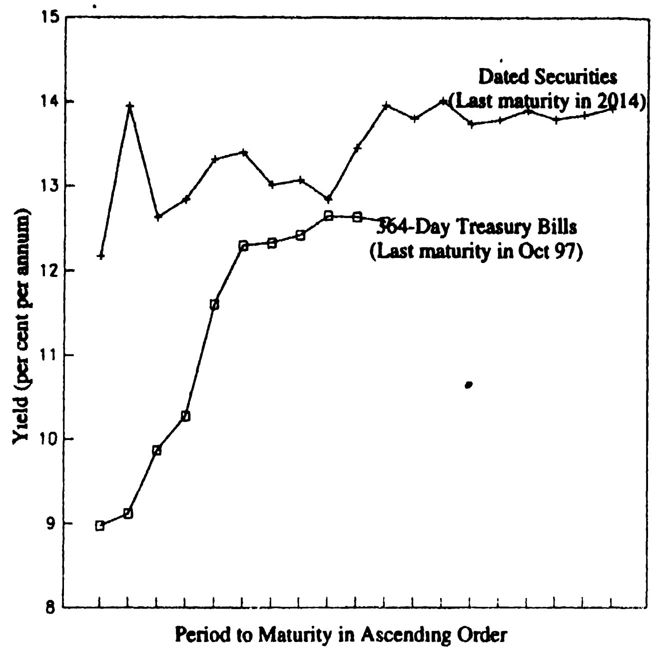
Items	October 1996				September 1996			
	25(RF)	18	11(RF)	4	27(RF)	20	13(RF)	6
Weekly range	0.10-11.00	9.00-10.25	0.15-10.25	10 40-10.90	0.25-10.95 (0 25-22.00)	10.25-11.00 (12.50-18.50)	0.25-7.25 (1.00-11.25)	5.50-7.00 (10.50-11.50)
Weekend (Friday)	0.10-0.25	9.00-10.00	0.15-0.60	10.40-10.70	0.25-0.50	10.50-10.80	0.25-0.50	5.50-5.75
Weekly weighted average*	9.18	9.49	8.94	10.68	10.55	10.43	6.00	5.81
DFHI lending rates (range)	na	na	0.40-10.50	9.05-10.90	1.00-10.95	10.00-10.90	0 50-7.50	5.75-7.00

* Weighted average of borrowing rates reported to the RBI by selected banks and DFHI, weights being proportional to amounts borrowed.
Figures in the parentheses represent weekly range during similar period last year.

Graph C: Annualised Daily 1-Month, 3-Month, and 6-Month Forward Premia in Percentage for the US Dollar by the Domestic Inter-Bank Market



Graph D: Yield Curves for 364-Day Treasury Bills and Dated Securities - Weighted Average for October 1996



drastic fall in forward premia for the US dollar both due to the anticipated domestic liquidity bulge and the possibilities of forex lending through FCNR(B) funds (Graph C). The annualised six-month premia which prevailed in the range of 8.5 to 9 per cent until October 18, dropped to 7 per cent on October 22 and reached 6.50 per cent towards the end of the month. The fall in forward premia was basically due to precipitous selling of foreign exchange forward by exporters and stoppage of banks' swapping activities as they could now prefer direct forex lending of FCNR(B) deposits rather than rupee lending through swaps.

The sustained decline of the forward premia, in the face of virtual absence of the RBI in the second half of the month, reflects the growing integration between money and forex markets, with the forward premia tending closer to the money market rates. The outstanding net liabilities of the RBI in the forward market, which peaked at $2,316 million as at the end of February 1996, declined to $1,799 million in June 1996 and further to $1,107 million at the end of August.

The decline in forward premia also provided arbitrage opportunities for banks. As observed during the second half of the month, banks reverted to the old practice of

Table 3: Auctions of 91-Day Treasury Bills

(Amount in rupees, crore)

Date of Auction	Notified Amount (Rupees)	Bids Tendered		Bids Accepted		Subscription Devolved on RBI (Amount)	Cut-off Price in (Rupees)	Cut-off Yield Rate (Per Cent)	Amount Outstandimg (Rupees) @		
		No	Face Value (Amount)	No	Face Value (Amount)				Total	With RBI	Outside RBI
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1995											
October 6	500.00	10.00	25.50	4.00	13.65	0.00	96.93	12.67	6500.00	661.41	5838.59
		(2)	(800)	(2)	(486.35)						
October 13	500.00	22.00	184.40	19	172.13	0.00	96.91	12.75	6500.00	220.41	6279.59
		(2)	(350)	(2)	(327.87)						
October 20	500.00	18	163.95	13	136.45	31.75	96.90	12.80	6500.00	104.86	6395.14
		(4)	(331.80)	(4)	(331.80)						
October 27	500.00	20	328.46	19	327.96	156.98	96.88	12.88	6500.00	261.84	6238.16
		(2)	(15.06)	(2)	(15.06)						
1996											
October 4	500.00	17	319.90	12	270.00	25.92	97.52	10.17	6500.00	130.00	6370.00
		(1)	(200)	(1)	(200)	4.08*	[97.53]	[0.13]			
October 11	500.00	42	968.08	17	472.81	0.00	97.54	10.09	6500.00	156.00	6344.00
		(2)	(275)	(2)	(27.19)		[97.57]	[9.96]			
October 18	500.00	28	675.64	17	303.96	0.00	97.55	10.05	6500.00	156.00	6344.00
		(3)	(300)	(3)	(19604)		[97.56]	[10.00]			
October 26	500.00	37	857.00	9	410.89	0.00	97.84	8.83	6500.00	156.00	6344.00
		(1)	(200)	(1)	(89.11)		[97.88]	[8.67]			
November 1	500.00	88	1965.26	15	488.40	0.00	98.30	6.92	-	-	-
		(1)	(50.00)	(1)	(11.60)		[98.33]	[6.79]			

Figures in parentheses in cols 3 to 6 represent numbers and amounts of non-competitive bids which are not included in the total.
Figures in the square brackets under cols 8 and 9 represent weighted average price and respective yield.
* Devolvement on primary dealers, exclusive of RBI. @ Outstanding amounts are estimated for last few weeks of October 1996.

soliciting FCNR deposits from NRIs at 7 per cent. Banks, in turn, lent the same NRIs or designated counterparts at 6.5 per cent which are being funded through borrowing at LIBOR plus rate of around 6 per cent. Simultaneously, the banks convert the FCNR deposits into rupees which are on-lent at 19 to 20 per cent, thereby yielding arbitrage benefit of 4 to 5 percentage points after the netting of forward premia and FCNR deposit rates.

III
Primary Market in Gilt-edged and Other Debt Instruments

Dated Government Securities

Consequent upon mounting criticism levelled against the commission-sharing tendency of primary dealers (PDs), it was decided by the PDs to (i) form a self-regulatory organisation, (ii) stop bidding on behalf of the non-PDs, and (iii) ultimately to stop sharing commission. As a result, the lone issue of government paper on October 7 worth of Rs 2,000 crore through the 4-year zero coupon bond 2000 (third series, second issue) witnessed about one-fourth devolvement of Rs 506.99 crore which was borne by RBI (Rs 454.26 crore) and PDs (Rs 52.73 crore). This happened despite the fact that the pre-determined discount price was Rs 60.66 which continued to provide a high yield of 13.73 per cent per annum. With this the government have already effected a net market borrowing of Rs 19,146 crore out of the budgeted amount of Rs 25,498 crore, i e, about 75 per cent.

91-day Treasury Bills

Due to abundance of short-term liquidity, the 91-day TB auctions have been receiving overwhelming response from both the competitive and non-competitive bidders since the last week of September. Even so the yield rate on the TBs continued to remain out of alignment, with the rate peaking in the recent period at 10.17 per cent towards the end of September and early October. In the subsequent auctions of October 11 and October 18, the competitive amounts bid were phenomenally large at Rs 968 crore and Rs 676 crore, respectively and yet the yield fell only fractionally to 10.09 per cent and 10.05 per cent, respectively. Even the weighted average of the yield offered in the first three auctions were high at 10.13 per cent, 9.96 per cent and 10 per cent, respectively, thus signifying that there was no decisive signal from the central banking authorities on curbing excessive market expectations. Such a signal did come about when the government expressed its anxiety to soften interest rates and help revive the economy, as also reduce the interest burden on the budget, which was finally reflected in the new credit policy. As a result, the last two auctions of October 26 and November 1, saw not only large bids but also bids at drastically reduced rates. The cut-off yields dipped to 8.83 per cent and 6.92 per cent, respectively (Table 3). Interestingly, the market perception was also so radically altered as to see a much sharper decline in the weighted average yield to 8.67 per cent and 6.79 per cent, respectively, in the above two auctions.

364-day TBs

The two auctions of 364-day treasury bills in October told a slightly different story: overwhelming response combined with less change in YTM. On the October 9 auction, RBI received bids amounting to Rs 880 crore from 27 bidders and accepted Rs 834 crore – almost 95 per cent of the bid amount, because the cut-off yield was held constant at 12.61 per cent. However, on the October 23 auction. The RBI's new-found enthusiasm to initiate a low interest regime, induced by the government's anxiety to arrest the growing interest cost on the budget, forced it to reduce the cut-off yield to 12.10 per cent and accept only 4 bids for Rs 151 crore – a meagre 12 per cent of the bid amount of Rs 1285.05 crore from 54 bidders. Such a lowering of the cut-off yield was possible only by rejecting as much as 88 per cent of the bid amount, implying that the change in the market expectations was not seen in 364-day TBs, unlike in the 91-day TBs. The weighted average of yields bid fell by 48 basis points from 12.55 per cent in the first auction to 12.07 per cent in the second auction as against a fall of 51 basis points in the cut-off yield (Table 4).

Operations of Primary Dealers

Three primary dealers (PDs), viz, Discount and Finance House of India (DFHI), Securities Trading Corporation of India (STCI) and I-Sec, published their balance sheets during September. The other three PDs are yet to complete their first year of operations.

Reading of the balance sheets of the three PDs makes interesting revelations. First, there is no uniformity in publishing the information relating to PD business. In fact, in the table below, I-Sec information could not be included as its balance sheet does not give data relating to its PD business separately. This is significant as the PD guidelines issued by the Reserve Bank clearly requires that the PDs should have separate trading desks and should maintain separate accounts. This is necessary not only from the viewpoint of transparency but also as, while operating in

TABLE 4: AUCTIONS OF 364-DAY TREASURY BILLS

(Amount in rupees, crore)

Date of Auction	Bids Tendered		Bids Accepted		Cut-off Price (Rupees)	Cut-off Yield Rate (Per Cent)
	No	Face Value (Amount)	No	Face Value (Amount)		
1995						
Oct 11	18	135.00	5	11.00	88.55	12.93
Oct 24	18	121.00	9	76.00	88 54	12.94
1996						
Oct 9	27	879.00	23	834.00	88.80 (88.85)	12.61 (12.55)
Oct 23	54	1285 05	5	151.00	89.21 (89.23)	12.10 (12.07)

Figures in the brackets represent weighted average price and the respective yield.

TABLE 5. PERFORMANCE NORMS AND ACHIEVEMENTS OF PDs, 1995-96

	RBI Norms	DFHI	STCI
Success ratio in committed bids			
Government Securities	33.33 Per cent	59 56 Per cent	58.67 Per cent
Treasury bills	40.00 Per cent	46.68 Per cent	53.00 Per cent
Annual turnover of total purchases and sales during the year as ratio of the average of month-end stocks			
		(Rupees, crore)	
	G-secs: not less than 5 times	60,143 (78.82 times)	170,282 (206 times)
	TBs: not less than 10 times	13,491 (24.98 times)	2,674 (25 times)
Of the total, turnover in out-right transactions			
	G-secs: not less than 3 times	548 (1.12 times)	1,879 (5 times)
	TBs: not less than 6 times	2,569 (5.80 times)	2,416 (24 times)

the government securities market, PDs have to keep a firewall between all its businesses. It was reported that one PD was caught by the RBI for diverting funds borrowed from the call market as PD to deploy in its sister concern doing broking business. It is very crucial that PDs as upcoming institutions and having para central banking status insofar as the public debt function of the central bank is concerned, maintain a very high standard of business ethics. While DFHI and STCI reports are largely comparable, in details they too differ *albeit* to a much lesser extent. Their performances are compared in Table 5 against the RBI norms for PDs.

It can be observed from Table 5 that the performance criteria in terms of success and turnover ratios are by and large met. The performance of these two institutions also clearly shows how vulnerable these institutions are to the vagaries of the market forces. For instance, DFHI has expressed some difficulty in achieving the ratios in outright transactions. This, as explained by DFHI, is on account of the level of 364-day TBs in the system which had declined sharply during 1995-96 whereas most of the 91-day TBs stock was taken up by non-competitive bidders and RBI (82 per cent). In the government securities section, the ratio could not be achieved as banks in the wake of liquidity crunch of the last year were heavily dependent on repo market rather than outright sale or purchases to raise funds. DFHI's turnover ratio also could be low as it being an older institution, may have worked on a larger base of securities than the newer institutions. The STCI too has done a huge turnover in repos than outright deals for the same reason.

STCI report also reveals that out of total 239 outright sale transactions, 147 transactions resulted in trading profits and 92 in trading losses. While trading profit was Rs 4.13 crore, trading losses were Rs 5.29 crore. As a result, STCI made a net trading loss of Rs 1.16 crore. Out of this, losses worth Rs 1.08 crore were incurred in periods between January-March 1996 when the money and forex markets experienced extreme volatility and tightness. These two illustrations clearly point out the market risk faced by PDs. This should bring home to them a point that has been stressed by the central bank and through these columns that the commission paid to them is for their own keeping for such rainy days and not for frittering it away.

The annual reports also clearly bring home the point that PDs should seriously look at cost-effective sources of funds. Depending on RBI refinance and call market once again expose them to the market increasing their holding costs for government paper. The recent announcement by the Reserve Bank allowing PDs access to bank finance, commercial paper and inter-corporate deposits will solve their problem to a certain extent. Yet, funding seems to be a major problem area for PDs. In this context, PDs have been trying to convince the central bank to give them overnight and daylight overdraft but the central bank has in no uncertain terms declined any consideration of this suggestion. Its rationale is that in opting for a settlement system on gross basis, the option of giving daylight overdraft has been automatically closed. In any case, the RBI follows a queuing arrangement in putting through the transactions in the delivery versus payment system. Daylight overdraft is implicit in such an arrangement as the likelihood of bouncing the SGL or current account drawal is reduced a great deal. Having given the refinance facility and the line of credit, the central bank also does not see any need to give PDs any further overdraft facility. Also, in considering such facility for SGL account, the Securities Contract Regulation Act (SCRA) is an impediment. Overdrawing SGL account amounts to short selling which is not permitted under the SCRA. In other words, PDs will have to look for sources of funds other than the RBI's overnight window.

The overoccupation of PDs in repo market last year had also affected their ability to focus attention on developing retail market in government paper. DFHI's turnover in 'repo' transactions constituted Rs 59,529 crore (or 99.1 per cent) out of its total secondary market turnover in government securities of Rs 60,007 crore in 1995-96; similarly, in the case of STCI, Rs 168,403 crore (or 98.9 per cent) out of Rs 170,282 crore constituted 'repo'. While this year, there are no external constraints in the development of a retail market, PDs have been engaged in unnecessary controversies such as, sharing of commission and seeking props from the central bank. In fact, there are tremendous possibilities for the development of secondary market in government securities with the new players such as, provident funds, NBFCs, co-operatives, and RRBs which have been recently asked to keep higher SLR. PDs can also repackage the existing portfolios of insurance companies and large provident funds to turn them more youthful. It would be advisable to use the

TABLE 6: OPERATIONS OF NATIONAL STOCK EXCHANGE (NSE) DURING OCTOBER 1996 – ACTUAL TRADED AMOUNT

(*Amount in Crore of Rupees*)

Descriptors	Week Ending October				Total during		
	25	18	11	4	October	September	August
1 Treasury Bills	74.00	332.00	290 74	151.83	848.57	417.24	1152 84
i) 91-day Bills	29.00	135.00	121 31	103.05	388.36	292.24	838 54
ii) 364-day Bills	45.00	197.00	169.43	48.78	460.21	105 00	289.30
iii) Repo	–	–	–	–	0.00	20.00	25 00
2 Dated Securities	1023.59	529.69	671.87	470.95	2696.10	1383.05	1793.44
A GOI Securities	1023.59	525.57	671.58	470.78	2691.52	1366.77	1779.46
i) Converted	372.10	223.50	178.50	120.00	894.10	256.00	253.00
ii) Regular	434.15	212.00	273.28	226.52	1145.95	727.36	1250.66
iii) Zero Coupon	217.34	90.07	219.80	119.26	646.47	331.41	230.60
iv) Floating Rare Bonds	–	–	–	–	0 00	5.00	10.00
v) GCB	–	–	–	5.00	5.00	0.00	5.20
vi) Repo	–	–	–	–	0.00	47.00	30.00
B State Govts Stocks	–	4.12	0.29	0.17	4.58	16.28	13.98
3 PSU Bonds	8.57	53.84	23.36	11.45	97.22	67.61	59.99
i) Tax free	2.57	16.15	17.01	7.45	43.18	42.60	18.84
ii) Taxable	6.00	37.69	6.35	4.00	54.04	25.01	41.15
4 Commercial Papers	–	–	2.00	–	2.00	9.00	0.00
5 Certificates of Deposits	–	6.20	4.00	25.00	35.20	20.55	13.65
6 Debentures	–	1.50	1.05	0.52	3.07	25.06	7.44
7 Floating Rate Bonds	0.23	1.48	–	–	1.71	23.60	2.67
8 ID+IB+BB+PD	36.15	14.10	10.08	7.58	67.91	102.02	34.24
Grand total (volume)	1142.54	938.81	1003.10	667.33	3751.78	2048.13	3064.26

– No trading. ID: Non-SLR Institutional Bonds. IB: SLR Institutional Bonds. GCB: Government Compensation Bonds. BB: Bank Bonds. PD: Promissory Note.

TABLE 7: REPO TRANSACTIONS IN DATED GOVERNMENT SECURITIES (Other than with the RBI) - October 1996

Repo Period in Number of Days	Amount (Rupees, Crore Involved)	Range of Interest (Per Cent Per Annum)	Weighted Average Interest rate (Per Cent Per Annum)
3	1429.00	5.25-11.00	6.74
4	523.00	6.90-10.50	8.81
7	50.00	9.50	9.50
8	50.00	9.50	9.50
9	60.00	9.48	9.48
10	75.00	9.50	9.50
11	70.00	9.20-9.30	9.21
12	50.00	9.25	9.25
14	606.50	8.00-10.85	10.45

APPENDIX TABLE: SECONDARY MARKET OPERATIONS IN GOVERNMENT PAPER, RBI's SGL DATA

(Amount in rupees, crore)

Descriptions	Week Ending October 1996: Yield to Maturity on Actual Trading												Total for the month of October 1996		
	25			18			11			4					
	Amt	YTM	CY	Amt	YTM	CY	Amt	YTM	CY	Amt	YTM	CY	Amt	YTM	CY
1 Treasury Bills															
A 91-Day Bills															
i) Sept 30, 1996	-	-		-	-		-	-		10.00	10.87		10.00	10.87	
ii) Oct 5, 1996	-	-		-	-		-	-		40.50	10.07		40.50	10.07	
iii) Oct 12, 1996	-	-		-	-		97.00	6.89		136.00	9.17		233.00	8.22	
iv) Oct 19, 1996	-	-		30.00	7.98		40.00	8.72		14.00	10.10		84.00	8.69	
v) Oct 26, 1996	27.00	6.77		76.00	8.30		82.00	8.87		2.00	9.97		187.00	8.35	
vi) Nov 2, 1996	25.30	6.14		43.00	8.09		15.00	9.84		-	-		83.30	7.81	
vii) Nov 9, 1996	-	-		9.00	8.31		90.00	8.16		-	-		99.00	8.17	
viii) Nov 16, 1996	-	-		68.00	8.60		72.70	9.07		37.00	10.29		177.70	9.14	
ix) Nov 30, 1996	-	-		60.86	8.53		143.21	9.33		100.00	10.24		304.07	9.47	
x) Dec 7, 1996	-	-		-	-		10.00	9.77		1.77	10.32		11.77	9.85	
xi) Dec 21, 1996	-	-		-	-		5.00	9.22		6 40	10.32		11.40	9.84	
xii) Dec 28, 1996	-	-		3.55	10.07		47.11	10.05		73.71	10.38		124.37	10.24	
xiii) Jan 4, 1997	0.48	8.98		60.85	9.96		208.60	10.24		-	-		269.93	10.18	
xiv) Jan 11, 1997	46.70	9.74		283.11	10.07		-	-		-	-		329.81	10.02	
xv) Jan 18, 1997	117.80	9.50		-	-		-	-		-	-		117.80	9.50	
Sub-total	217.28	8.82		634.37	9.28		810.62	9.10		421.38	9.92		2083.65	9.29	
B 364-Day Bills															
i) Oct 11, 1996	-	-		-	-		-	-		3.00	8.98		3.00	8.98	
ii) Oct 25, 1996	-	-		10.00	8.49		10.00	9.32		5.00	9.97		25.00	9.12	
iii) Dec 20,1996	5.00	9.47		-	-		5.00	10.27		-	-		10.00	9.87	
iv) Jan 3, 1997	-	-		-	-		5.00	10.28		-	-		5.00	10.28	
v) Apr 11, 1997	4.25	10.12		20.00	11.92		-	-		-	-		24.25	11.60	
vi) Jul 4, 1997	5.00	12.22		39.46	12.26		-	-		7 83	12.57		52.29	12.30	
vii) Jul 18, 1997	10.00	12.27		40.00	12.31		25.00	12.31		8.64	12.57		83.64	12.33	
viii) Aug 29, 1997	-	-		35.00	12.42		80.00	12.43		-	-		115.00	12.43	
ix) Sept 12, 1997	-	-		18.00	12.41		19.97	12.66		35.00	12.76		72.97	12.65	
x) Sept 26,1997	15.00	12.22		35 00	12.53		48.50	12.51		145.50	12.74		244.00	12.63	
xi) Oct 10, 1997	57.70	12.32		417.30	12.61		60.00	12.61		-	-		535.00	12.58	
Sub-total*	96.95	12.05		614 76	12.46		253.47	12.29		204.97	12.61		1170.15	12.41	
2 GOI Dated Securities															
A Converted (Per Cent: Year)															
i) 13 50, 1998	167.00	12.97	13.41	190.00	13.19	13.77	190.36	12.17	13.26	211.00	12.26	13.28	758.36	12.63	13.43
ii) 12.00, 1999	132.00	13.[illegible]2	12 33	80.15	13.45	12.37	45.00	13.57	12.40	-	-	-	257.15	13.40	12.36
iii) 11.75, 2001	7.10	13.13	12.36	2.35	11.96	11.84	-	-	-	-	-	-	9.45	12.84	12.23
iv) 12.50, 2004	-	-	-	7.00	13.96	13.39	35.19	14.02	13.43	8.00	14.03	13.44	50.19	14.02	13.43
Sub-total*	306.10	13 12	12.92	279.50	13.27	13.34	270.55	12.65	13.14	219.00	12.33	13.28	1075.15	12.88	13.16
B Regular (Per Cent: Year)															
i) 10 75, 1996	-	-	-	-	-	-	1.50	-20.11	10.61	5.00	-5.60	10.64	6.50	-8.95	10.63
ii) 13 50, 1997	190.49	11 69	13.31	132.00	12.22	13.37	82 50	12.40	13.38	144.00	12 64	13.41	548.99	12.17	13.36
iii) 6.00, 1998	-	-	-	0.00	13.95	6.82	-	-	-	-	-	-	0.00	13.95	6.82
iv) 13.62, 1998	97.50	12.67	13 44	110.00	12.83	13.46	90.00	12.83	13.46	100.00	13.03	13.50	397.50	12.84	13.47
v) 13 65, 1998	-	-	-	-	-	-	0.45	12.93	13.50	5.00	13 35	13.59	5.45	13.31	13.58
vi) 13.65, 1999	50.00	13.02	13.52	-	-	-	-	-	-	-	-	-	50.00	13.02	13.52
vii) 13.70, 1999	29.40	12.87	13.46	59.00	12.97	13.49	107.67	13.03	13.51	102.12	13.24	13.56	298.19	13.08	13.52
viii) 13.75, 2001	-	-	-	9.00	13.41	13.60	5.00	13.43	13.61	18.00	13.47	13.63	32.00	13.45	13.62
ix) 12.75, 2002	-	-	-	0.18	13.96	13.39	-	-	-	-	-	-	0.18	13.96	13.39
x) 13.82, 2002	20.00	13 70	13.76	27.05	13.76	13.79	51.94	13.79	13.80	91.04	13.84	13.83	190.03	13.80	13.81
xi) 14.00, 2005	-	-	-	-	-	-	-	-	-	0.52	13.74	13.83	0.52	13.74	13.83
xii) 14 00, 2005(INST)	-	-	-	0.04	13.70	13.79	2 09	13.79	13.86	-	-	-	2.13	13.79	13.86
xiii) 11.50, 2006	0.40	13.65	12.96	15 00	13.91	13.15	-	-	-	-	-	-	15.40	13.90	13.15
xiv) 13.85, 2006	13.00	13.77	13.80	-	-	-	4.37	13.87	13.87	1.00	13.86	13.86	18.37	13.80	13.82
xv) 14.00, 2006	-	-	-	-	-	-	4.00	13.85	13.89	-	-	-	4.00	13.85	13.89
xvi) 10.50, 2014	-	-	-	25.00	13.93	13.54	-	-	-	-	-	-	25.00	13.93	13.54
Sub-total*	400.79	12.35	13.42	377.26	12.84	13.45	349.52	12.83	13.51	466.68	12.94	13.53	1594.25	12.74	13.48
C Zero coupon (Per Cent: Year)															
(i) ZCB, 1999	85.14	13.52	9 21	5.00	13.74	9.27	72.07	13.76	9.30	55 00	13.88	9.35	217.21	13.70	9.28
(ii) ZCB, 2000(III)	87.20	13.76	11.53	140.00	13.91	11.62	162.00	13.90	11.64	286.00	14.07	11.75	675.20	13.96	11.67
(iii) ZCB, 2000(III-II)	65.00	13.72	13.23	155.07	13.90	13.36	503.70	13.87	13.37	-	-	-	723.77	13.86	13.36
Sub-total	237.34	13.67	11.16	300.07	13.90	12.48	737.77	13.86	12.60	341.00	14.04	11.36	1616.18	13.88	12.10
(A+B+C)	944 23	12.93	12.69	956.83	13.30	13.12	1357.84	13.36	12.94	1026.68	13.17	12.76	4285.58	13.21	12.88
D RBI's Open Market Operations (Per Cent)	480.00	13.44	13.64	53.00	13.77	13.79	95.17	13.77	13.79	-	-	-	628.17	13.52	13.68
(A+B+C+D)	1424.23	13.10	13.01	1009.83	13.32	13.15	1453.01	13.38	13.00	1026.68	13.17	12.76	4913.75	13.25	12.98
3 REPO															
(i) 91-Day T Bill	-	-	-	-	-	-	107.00	-	-	-	-	-	107.00		
(ii) 364-Day T Bill	208.00	-	-	-	-	-	48.00	-	-	-	-	-	256.00		
(iii) Govt Securities	560.00	-	-	660.50	-	-	1188.00	-	-	505.00	-	-	2913.50		
Sub-total	768.00			660.50			1343.00			505.00			3276.50		
4 State Govt Securities	14.78	13.99	14.00	18.98	13.91	13.93	-	-	-	0.16	13.71	13.75	33.92	13.94	13.96
Grand total	2521.24			2938.44			3860.10			2158.19			11477.97	-	-

(-) means no trading YTM = Yield to maturity in percentage per annum CY = Current yield in per cent per annum * Yield rates of these sub-groups of t-bills and dated securities have been used for the graphs.

Notes: 1) Yields are weighted yields, weighted by the amounts of each transaction.
2) Current yield has not been worked out for treasury bills.

commission in absorbing the losses occurring on account of developing the market in this manner rather than sharing it with existing class of investors and distorting the yield curve for government paper.

Bonds Market

After three prominent corporate houses, namely, TISCO, Larsen and Toubro, and Arvind Mills, were hard put to successfully conclude their bonds/debenture issues, it is surmised that manufacturing firms are not a favoured group in the bonds and other debt instrument markets. On the other hand, with the Indian public becoming increasingly sensitive to risk, the public financial institutions and public sector undertakings (PSUs) continue to attract attention amongst the investors. Even so, despite the stiff competition amongst the public bodies, the medium to long-term rates of interest have hardly come down. During the month, IDBI floated twin issues of 1-year bond at 16 per cent and 3-year bond at 16.5 per cent totalling Rs 250 crore; the issue managed to reach its target. In its open-ended scheme, IDBI could collect Rs 700 crore. Due to pressures for reducing lending rates, it is reported that the IDBI's forthcoming issue of Rs 1,000 crore (with a greenshoe option of another Rs 1,000 crore) will carry an interest rate of 15 per cent as against the earlier 16 per cent for similar maturity.

A number of PSUs were active in raising long-term funds from the market by paying hefty interest rates in terms of higher up-front discounts. The forthcoming issues in the PSU segment are SBI (Rs 1,000 crore), Konkan Railways (Rs 150 crore), NHB (Rs 500 crore) and KSIDC (Rs 100 crore).

Commercial Paper (CP)

With the stiffening of lending rates, the corporate interest in CDs had revived in the first half of this year; the outstanding amount steadily rose from Rs 73 crore at the end of April to Rs 350 crore on September 15 and the effective rate of discount fell from a range of 18 1 to 20 3 per cent to 12.8 to 14.1 per cent during the period. The CP market has received a further boost following the latest credit policy of delinking CPs from cash credit limit. The corporates will have the freedom to take the entire maximum permissible bank finance (MPBF) through CP.

Certificates of Deposit (CDs)

The easy liquidity has also resulted in reduced dependence on certificates of deposits by banks and financial institutions as also a fall in its effective rate of interest. CDs issued by banks steadily fell from Rs 21,053 crore as of June 7 to Rs 16,817 crore on August 16 and the effective rate of interest from 12 to 20 per cent to 9.50 to 16 per cent. IDBI raised Rs 30 crore from Punjab & Sind Bank at 16.5 per cent on October 1 but was willing to offer only 15 per cent by the 10th of the month. The rates came down even further after the monetary policy announcement.

ICD Market

After defaults of some prime borrowers in the inter-corporate deposit (ICD) market a couple of months ago, the sentiment in this market has been extremely cautious. In fact, a list of defaulters being circulated in the ICD market indicated that the largest number of defaulters has been in the textile sector followed by chemicals and food and agro-based industries. Steel, construction and drugs also figured as dominating defaulters.

IV
Secondary Market

Dated Securities

Government securities, especially the erstwhile high coupon and short-dated ones, came under mounting speculative demand which was fuelled by the expectation and ultimate realisation of a liberal credit policy, ample liquidity and low call rates. Trading on the NSE screen in government securities during October was twice (Rs 2,696 crore) as much as that during September (Rs 1,383 crore) (see Table 6). Likewise the SGL transactions shot up from Rs 2,458 crore to Rs 4,286 crore. Many banks, mostly foreign, took the early bird position and booked profits after the credit policy when prices perked up. The most sought after security was 13.65 per cent 1999 stock which was swapped with 12.0 per cent 1999 due to the former's better yield. Even when the RBI put the former stock on its sale window on October 22 at a yield of 13.64 per cent, the intense demand pushed up its price by 6 paise the same day and forced the Reserve Bank to ration the scrip. The total amount of stock sold on that single day was Rs 275 crore. The beginning of the month also saw hectic trading in 13.5 per cent 1998 stock as the date for coupon payment, i e, October 18, drew nearer. The trading of this stock was stopped from October 10 till the coupon date. Another large trading was witnessed in case of ZCB 2,000 when SBI Gilts sold this stock worth Rs 250 crore at yield of 13.73 per cent as a form of commission sharing. The other securities which were in much demand were 13.5 per cent 1997 and 13.82 per cent 2002 (see Appendix Table). The release of over Rs 2,100 crore through CRR cut on October 26 caused over two percentage points drop in the yields on one-year paper from 12.5 per cent to 10.80 per cent, while at the other end of the spectrum, the 10-year paper saw yields dropping by at least 12 basis points. The RBI also played an active role in bringing down the yields with frequent changes in its price list for open market operations.

Open Market Operations

After a gap of almost two years, the RBI has revived its open market operations in October. It absorbed as much as Rs 1,579 crore through this instrument between October 10 and October 31. Of this, a larger portion was absorbed on and after October 22, that is, after the new credit policy. The RBI also used its price list for OMO to send signals to the market on interest rates. It offered long-dated paper at prices much higher than the market indicating the imperative of a southward direction of long-term interest rates. While the market did not hesitate in purchasing long-dated paper, it took the signal on interest rates with a pinch of salt.

Repo Transactions Outside the RBI

With an increase in the number of government paper eligible for repo, the size of the repo market has begun to grow again, the bulk of it being for 3-day durations as overnight funding mechanism without raising the net DTL. Interestingly the rates of interest have ranged from 5.25 to 11 per cent, with a weighted average of only 6.74 per cent per annum. At the other extreme, the 14-day repo, which has enjoyed some importance from chronically deficient banks, has fetched a weighted average rate of 10.45 per cent per annum (Table 7).

Other Debt Instruments

The secondary market in PSU bonds saw some tempo of activity until the announcement of the credit policy but there after it was subdued. Total trade in these bonds on the NSE screen rose from Rs 67.61 crore in September to Rs 97.22 crore in October (Table 6). The secondary market in CPs and CDs continued to remain subdued as the investors refused to part with these papers.

Yield Curve

There have occurred some radical changes in the yield curve behaviour for government paper during October. While the curve for the YTMs of 364-day TBs shows a steeply upward movement, that for the dated government securities has remained stubbornly flat suggesting that the term-spreads have considerably narrowed down, particularly after the emergence of excess liquidity conditions in the money market (Graph D). In the normal course, this should have been a precursor to a fall in the long-term interest rates for commercial borrowings and impetus to increased investment activity. But, the financial sector liberalisation combined with large government borrowings has made possible the insulation of financial markets from the needs of the real sectors where the long-term interest rates may continue to rule high even when long-term interest rates on government paper show a falling trend.

[V P Prasanth and Refiq L Ansari have rendered considerable help in the preparation of this reviw.]

The Left Front and the 'Unintended City'

Is a Civilised Transition Possible?

Jai Sen

The recent drive by the Left Front government in West Bengal to phase out hand-rickshaws is a feature of the grand plan to modernise Calcutta in the context of globalisation. Unlike the last time, in the early 1980s, when the Left Front had attempted to abolish hand-rickshaw, there has been little protest from any quarter today.

THE debate that has recently been taking place in Calcutta – within the state government, within the ruling Left Front, and in the media – about the future of 'hand-rickshaws and of rickshaw-pullers in Calcutta, has in many ways been interesting, instructive, and good to see. This is not a new debate, but it has been good to see that this time, there seem to be people in leading positions – such as Buddhadeb Bhattacharya, minister (home) – who, for a while anyway, seemed to be not willing to take a simple-minded approach to traffic planning and 'city modernisation'. They have, on and off at least, seemed to be willing to confront some of the awkward realities that are contained in our social existence, of which rickshaws and rickshaw-pulling (and for that matter, the *riding* of rickshaws) is only one example. It has been good simply to see ministers talking fairly openly about such issues; and it has also been good to see a new openness within the left, where such issues have been allowed to come out in public (which was not at all there just a decade ago, on the very same subject).

But it is important also to underline the fact that if we want to see ourselves as living in and building a democratic society, this is a very important public debate – one which is of far more significance that might appear to be the case at first sight. As I explain below, in collective terms the debate implicitly involves the lives, livelihoods, and futures of a huge population, straddling urban and rural areas in Bengal, Bihar, Orissa, Uttar Pradesh, and also Bangladesh. This is moreover not only a large population, but also among the poorest and most exploited sections in the region and country. It is crucial also to recognise that the apparent stand-off that briefly appeared in public between Buddhadeb Bhattacharya and Subhas Chakraborty is, to put crudely, between more civilised and democratic planning and more authoritarian ("I will clear them from the streets") planning. The agenda at hand is thus much bigger than just 'rickshaws or no rickshaws'. Indeed, precisely because rickshaws and their pullers are a powerful symbol and reminder of a feudal past (and of a continuing present that exists too widely in the country), it is vital that the issue is understood not just by itself but as a part of the wider and continuing struggle to fight feudalism. And it is important that the recent debate is sustained and taken up as widely as possible, within parties and in civil society, and that a socially just and forward-looking resolution found; and that apparently 'modern' but equally authoritarian, neo-feudal, 'planning' is not permitted.

At the time of writing, one of the more recent developments in a fast-developing situation, is that the two ministers in question have 'buried the hatchet', and that Bhattacharya has apparently come round to agree with Chakraborty that "rickshaws must be quickly cleared from the city, for the good of the city", and, it has been reported, that he apparently agrees that "the poor must suffer a little for the good of the larger community". There is, perhaps, more between the lines than the media has reported, but nevertheless it has to be said: How familiar and how sad it is to read this – and quite aside from how patently anti-Marxist this refrain is. To this observer, this position is grotesque, especially coming as it does from a government of parties who claim to be of the left. By recalling the history of the present situation and thus placing it in context, and in particular by drawing on the debate that took place in Calcutta in the early 1980s around a precisely similar drive to get rid of rickshaws in the name of modernisation, and by pointing to some concrete and feasible alternatives, this article hopes to re-open the debate, towards a more meaningful process of change.

Though the debate has so far been largely focused on the future of hand-rickshaws in Calcutta (and only to an extent, on the future of the rickshaw-pullers; there is a vital difference), we must also remind ourselves that in fact the West Bengal government's proposed drive is possibly going to be much wider. In what was perhaps the opening salvo this year, R K Prasannan, transport secretary, announced on August 7 that the state government had decided that "The city will no longer have hand-pulled and cycle-rickshaws, pull carts, school vans and other cycle-vans by the end of this year... *The decision to remove all manual modes of transport has been finalised*" (*The Telegraph*, August 8, emphasis supplied). So the number of people who stand to lose their livelihoods, and importantly also the range of services lost to the rest of Calcutta, is in fact far larger than simply those involved in the rickshaw trade alone. But as often happens in this debate however, the hand-rickshaw and the rickshaw-puller has come to symbolise this larger world. For the sake of convenience, I too will confine my discussion to this section, but would like it to be seen to symbolise the much larger question – the future of what I call 'the unintended city', the city of the poor. The question before us is: is a civilised, and democratic, transition possible? Is the Left Front, whose constituents have historically associated themselves with the poor, and with the struggle for democracy, willing to address this question?

A drive for the removal of hawkers has also been simultaneously announced – or more accurately, of what Chakraborty has distinguished as 'encroachers' (saying that 'hawkers' are those who move around hawking their wares, and where those commonly called 'hawkers' are usually in fact simple encroachers on public land such as footpaths; *Statesman*, August 18). After much to-ing and fro-ing, CITU – and perhaps some other unions affiliated to the left parties – has come out in defence of the rights of 'poor hawkers' to hawk, but not what it calls 'businessmen' (*The Telegraph*, October 2). It is important to recognise this distinction, and that established hawkers, though also part of what planners and academics like to call the 'informal sector', constitute a very different class and section than rickshaw-pullers. Although in simple physical planning terms, their occupation of public space may seem to be also related to road and traffic congestion, in economic and political terms this is a very different question. It is no accident that elaborate plans such as the commercial development of Vivekananda Park in south Calcutta (*The Telegraph*, September 27 and 28),

ostensibly in the name of 'rehabilitating hawkers who will be removed', have materialised within a month – and where plans for the rehabilitation of rickshaw-pullers are still at the level of conjecture and 'meetings'. It is only too typical of officialdom to club the two questions together – under the bureaucratic rubric of 'law and order', 'traffic congestion', etc. And despite his otherwise useful distinction in relation to hawking, Chakraborty himself also seems quite happy to lump encroachers and rickshaw-pullers together. What is sad to see is that other than Buddhadeb Bhattacharya, no other voice or opinion in the Left Front in West Bengal has been raised to make distinctions and to move towards clearer and more strategic thinking, planning, and action – something that has often been the hallmark of the left.

The Unintended City

Rickshaws and rickshaw-pullers, are just one fragment of what planners, social scientists, and the international bureaucracy tend to call the 'informal sector', but which I prefer to term 'the unintended city': A society that has grown within and beside the intended city and society [Jai Sen 1975]. The existence of this 'city' is neither planned nor intended, either by ruling sections and their planners or, in any collective or deliberate sense, by its own members; but nor is it intended by the richer sections that it should disappear – for it is in their interests that 'the poor' should always be around, to service them with cheap labour. Though the debate in question has been taking place in and about Calcutta, this larger reality is equally true of all cities and towns in the country – and indeed, to greater or lesser extent, of all cities and towns in the world; and only increasingly so, as the contradictions of modern and post-modern development manifest themselves. The increasing number of street children in urban areas of the south, and the increasing homelessness in cities of the north, are just two manifestations.

In our context, the citizens of the unintended city are no different from the middle classes, in that most of them come from the surrounding regional hinterland of the city, but the twin forces of rejection and affinity – rejection in the form of discrimination, exclusion, and exploitation by the urban centre, and the affinity of strong ancestral tradition and of familiar primordial association such as language and caste – leads these citizens to live a reality that straddles what are called 'urban' and 'rural' areas. This has led (and is constantly continuing to lead) to the gradual and mostly unintended evolution of a 'new' society, different from either the conventionally or normatively 'rural' or 'urban', a synthesis of the ordinary things that this mass of ordinary people is doing over generations in their myriad struggles to survive and to prosper in a relentlessly hostile environment. This hybrid society has specific and inherent value especially for the poor, since it allows them to develop within their own capacities and potentialities, to meet the demands of evolving life both in the city and in their rural homes; and as a result, new hybrid values are slowly being evolved which offer them flexibility and security, both of which are vital in an evolving situation.

So far in history, there has been little or no genuine attempt on the part of dominant society to accept the urban poor and disadvantaged as a part of the city, here or anywhere else: To accept them as equal and integral citizens, to develop the city also according to their needs as a society different from the 'dominant urban', and where their disadvantage might be reduced; and to find ways of planning and decision-making in which they can take equal part. At best, they are tolerated, and planning is done for them, according to what the dominant centre thinks is best for them. Usually, it is quite the opposite, where 'planning' means what the dominant centre thinks is best for itself, and where such peoples are not only exploited for their labour but their lifestyles are also frowned upon and their livelihoods declared illegal – and then even this 'illegality' is then exploited. In those rare instances where things have been different and where change has taken place, it has usually come about as a result of resistance and struggle – not out of largesse.

Rickshaws and rickshaw-pulling are a classic case in point. By the early 1980s, there were some 50-60,000 hand-rickshaws being plied in Calcutta, but the number of licences that were issued by the Calcutta Municipal Corporation (and the ceiling on licences, under existing law) was only 6,000. This ceiling remains the case, even today. A certain number of licences were also issued at that time by surrounding municipalities such as Rajpur, but this still left something like 40,000 rickshaws which were in use at that time, that were 'unlicensed'. Since each vehicle provided employment to an average 2.2 pullers per day, this meant that nearly a lakh of pullers were then being forced to work 'illegally'.

The research which produced these figures, done by Unnayan, a civil organisation based in Calcutta, also however revealed an interesting background: (a) The ceiling on licences of 6,000 had been set as far back as 1939, 57 years ago now. This figure has not been revised upwards since then, despite the tremendous growth in the city's population and the inevitable consequent tremendous increase in demand for services; despite official reports recommending increases; and, no less important, despite the evident reality of a huge number of 'unlicensed' vehicles – which were nearly 90 per cent of the total on the streets, by the early 1980s. (b) This situation was far from being one of benign neglect. The standard and mandatory rule for all 'unlicensed' rickshaws and their equally unlicensed pullers, was (and remains) regular bribes to both corporation officials and the police, adding up to a dirty grey economy running into crores [tens of millions] of rupees, each year. And (c) Large numbers of these unlicensed vehicles were in fact owned by members of the police force [Unnayan and Thomas 1981]. In this situation, it is only quite likely that many of these 'unlicensed' vehicles on the streets were ones that had earlier been seized by the police, on the grounds of illegality, and were then being 'recycled'. So it was a neatly tied-up economy, where the pullers were exploited by both the owners of the vehicles and by the administrators of the city.

Point (c) is not to suggest that it is only policemen who own fleets of rickshaws. Unnayan's research showed that the majority of rickshaws, both licensed and unlicensed but especially the unlicensed, were owned in small and medium fleets (of between two and 20 vehicles) by individual owners, i e, by 'small owners'; and there were only a few 'large owners', having fleets of hundreds of vehicles. Unlike the cycle-rickshaw trade, where this was at least partly the case, very few handrickshaw-pullers owned the vehicles they pulled, let alone fleets. In short, it was a highly exploitative and feudal trade right up to the early 1980s. The now-famous book and film 'City of Joy' (which, incidentally there is much reason to believe, took a lot from the Unnayan study without acknowledging it) portrayed a part of this feudal reality.

There is little to suggest that this situation has changed much since the early 1980s – except in the important dimension of numbers, where both the number of vehicles and pullers has gone substantially down. This reduction has taken place not 'by itself' but on account of a combination of factors since then. On the one hand, there has been a fairly sustained – if also sporadic – process of seizures of unlicensed vehicles by the police, and an apparently much stricter process of issuing of licences by the corporation, both for vehicles and pullers. On the other hand, the steep rise in the cost of living over this period that the pullers have equally faced, as well as the constantly-rising level of pay-off that has had to be made to the police precisely because of the dropping numbers of vehicles, has meant that rickshaw fares have risen very sharply during this time – and that their usage has accordingly dropped. It is a war of attrition,

with a certain inevitability about it; the government's move suggests that it is finding the process too slow, and seems to be to accelerate it.

Are There any Lessons?

The currently-proposed 'drive for modernisation', and in some ways the debate that has been taking place, is also nothing new. The last major round that took place, was in the early 1980s, when the same Left Front government put into practice a major drive to ban 'unlicensed' rickshaws from the city – and, simultaneously, to introduce auto-rickshaws. Much publicity was given to constables being given special rewards for seizing unlicensed rickshaws; long lines of chained vehicles started appearing in front of the city's police stations, followed by huge stockpiles of their broken carcasses in dumps in the north and south of the city. Unlike this time round, when there has been so little opposition except for a few letters in the papers (and Bihar politicians Laloo Prasad Yadav and George Fernandes speaking out in support of Bihari pullers), the 1981 drive was opposed and strongly criticised by different sections of civil society in the city, and briefly also by the Congress Party. The criticism however perhaps especially came from Unnayan, which entirely by coincidence had at that time just completed and published its detailed study of the hand- and cycle-rickshaw trades in the city, as outlined above. Unnayan found the plan to ban to be outrageous, violating the most fundamental of the pullers' human rights and also making no planning sense at all. On the basis of its findings, it argued that the banning of so-called 'unlicensed' rickshaws in the city would on the one hand suddenly deprive the city of a range of important services (short-distance passenger travel, freight carriage in dense inner-city areas, as well as speciality services such as emergency transport for the aged and the ill especially among the majority of the city that is low-income, and safe personalised service for school children). On the other hand, since no employment alternatives were proposed for the pullers, the drive would throw nearly a lakh of pullers out of work, as well as a significant further number who were employed in rickshaw assembly and servicing work.

On that occasion however, there was no public opposition or debate within the Left Front (at least, which came out in the public). It is in fact one of the tragedies and contradictions of the left being in power in Bengal that the drive was, for instance, not opposed by the Calcutta Rickshaw Pullers Union, formed by the legandary unionist Mohammed Ali. This union had been built among the highly unorganised pullers during the 1950s, when workers in this highly feudal trade came to be 'organised' for the first time and to command some respect from the bureaucracy as well as from owners of the vehicles. But in the 1980s, when Unnayan approached it for its views on the drive being undertaken, it found the union to be paralysed on the question, seemingly on account of its being tied to one of the ruling parties. Finding no constructive response to its arguments from within unions and from within the left (and indeed, from one of the state's civil liberty organisations, who decided that the matter was 'a trade union matter, not a question of human rights' - a sign of those times). Unnayan took its points to the public. Through booklets, newspaper articles, and with the help of an arresting film called 'Man vs Man' made by film-maker Shashi Anand based on its study, Unnayan was able to raise a fair debate in the city – indeed, to such an extent that the chief minister himself came out in public and said darkly that 'some people are misleading the public' on the issue.

Unnayan's campaign was however by no means decisive. It was only when Unnayan's campaign came to notice of trade unionist George Fernandes, and the question was taken up by him – in part because a substantial proportion of the city's pullers are from Muzaffarpur in Bihar, which was then his constituency – that the Calcutta Rickshaw Chalak Panchayat was formed. And it was only after the matter was taken by the new union to mass meetings of rickshaw-pullers, in Mohammed Ali Park in central Calcutta among other places, leading to gheraos of police stations and the corporation's licensing office, that the 1981 drive died down.

On its part, Unnayan went further than merely opposing the drive. It proposed that while the feudal practice and trade of rickshaw pulling should certainly be done away with, mandatory policy prerequisites had to be (i) the making available of alternative employment opportunities for the pullers, and (ii) the replacement of the most essential services that would be lost. To achieve this most economically, Unnayan proposed the mass introduction of what it called a 'city-rickshaw' and also, for what would have been the first time, transport and traffic planning in the city that took such transport services into account, such as route separation.

The city rickshaw was not simply a fanciful idea. With the help of volunteer designers and engineers, Unnayan took the initiative of designing such a vehicle and of building and testing a couple of prototypes, including making it available to a rickshaw drivers' co-operative in Kasba for field testing, where it proved very popular. Basically a cycle-rickshaw and just as easily buildable, the cycle-rickshaw was however a radical improvement. Smaller and with a tighter turning circle (essential for dense inner-city traffic), lower and therefore far more stable, equipped with gears and drum-brakes for easier driving, and fitted with independent suspension for a far more comfortable ride for passengers, the city-rickshaw could have been a very appropriate replacement for the hand-rickshaw on both the policy counts listed above. The prototypes designed and tested could also be easily converted into an effective freight-carrying vehicle, which is an equally essential characteristic of a vehicle in our context.

The government of West Bengal was however, not interested. Though many individuals within government departments expressed much interest, including in the state planning board and the small industries department, none of the government bodies that Unnayan approached were willing to even provide the small grant that it requested for the research and development work that had to be done to make the idea a reality, let alone look at the idea. To the contrary, in a previously unannounced step but one which must have had a lot of pre-planning, the state government suddenly announced the introduction – and licensing – of auto-rickshaws in the city, even while the hand-rickshaw drive was on. Indicating that Unnayan's campaign had at least had some effect, the chief minister went so far as to say in public that "the public should not be worried about the loss of services caused by the banning of hand-rickshaws; the government is introducing auto-rickshaws, and they will carry your kiddies to school".

The dangerous and polluted history of auto-rickshaw service in the city over the subsequent years has shown how ironic and weak that claim was, but far more significant are the facts that the chief minister failed completely at that time to address the question of his government throwing the poorest of toilers out of work and thereby being directly responsible for creating only more misery and more unemployment. Instead, the situation was used by the government to invite Bajaj, the industrialist-manufacturers of auto-rickshaws, to move into the city and displace the small assemblers who made hand-rickshaws. And even as thousands of impoverished rickshaw-pullers were put out of work, the situation was used by the government as an opportunity to give heavily subsidised employment to an entirely different section: hundreds of 'educated-unemployed youth', almost certainly a convenient vote-bank, were given auto-rickshaws worth Rs 25-30,000 each in the name of bank loans that in effect never had to be repaid – against the cost of a hand-rickshaw of Rs 1,000. The bank loans were later written off. It is also not possible to

avoid the fact that those who were subsidised in 1982-84 were Bengali, and those who were rendered unemployed were largely non-Bengali. This communal reality was only reflected in the response of the then state minister of transport, when Unnayan approached him in 1981 about the problems being created by the drive. "But the rickshaw-pullers are only Biharis! And after all, the government is only seizing rickshaws in order to protect law and order."

The situation that exists in Calcutta today, in 1996, is not very different. There are, however, two important exceptions. One is that for a brief while so far at least, someone important within the government has spoken up and has even spoken about the contribution of the pullers to the city. For the moment, this voice however also seems to have died down. Since there were no other changes in the situation, this has happened for reasons that are not very clear – except that the government wanted to present a unified face to the public, at any cost What this article has tried to show is that it is of considerable importance – for a civilised society, and for the left – that this voice be raised once again, and that it is supported loudly and clearly by civil society and by all democratic-minded political parties. The Congress Party would in fact do well to recall that one of the first points in its 1994 election manifesto was 'Replace hand-pulled rickshaws by driver-owned cycle-rickshaws .. In the first 100 days' (*Pioneer*, March 27, 1994). The history of this point is not known.

The second exception, or change since the 1980s, is that following the first skirmish and then the peace treaty, and contrary to his earlier defiant stand of 'No Rickshaws' Chakraborty has announced that the state government has 'begun discussions with two automobile companies, Bajaj Auto and Telco, to design and manufacture a smaller and simpler version of the auto-rickshaw, which can be handed over to the rickshaw- and handcart-pullers as an alternative mode of employment" (*The Telegraph*, September 24). Taken at face value, this should also be accepted as an advance since the 1980s. But closer examination of what Chakraborty also said reveals that the government will also be holding "a meeting with representatives of nationalised banks and state co-operative banks...very soon", and that "A formula will be chalked out to make money available (*sic*) to rickshaw- and handcart-pullers *or any other interested unemployed person*, he said" (*The Telegraph*, September 24, 1996, emphasis supplied). Aside from severe other problems with this proposal, this is the crunch line: The process of supposedly giving employment alternatives to 'the poor pullers' is evidently being once again used as an entry door for 'other interested persons'. History is only repeating itself.

Some Conclusions

It is also important to realise that the anti-rickshaw drive now being given shape, has not suddenly materialised. There are clearly people, and sections, within government who are determined to remove rickshaws, whatever it takes. Exactly one year ago, *The Guardian* in Britain carried an article headlined 'End of the road for rickshaws: Plans to modernise Calcutta will rob 60,000 human engines of their jobs'. The article quoted Ashim Burman, commissioner of the Calcutta Municipal Corporation (who was credited as "shaking things up since taking over last year as Calcutta's city commissioner") as saying: "Man pulled rickshaws have to be dispensed with. . They add to congestion, and they are humiliating" (October 5, 1995). The article also pointed out that "Burman is part of a wider effort to reinvigorate Calcutta... The Communist politicians who control the West Bengal state government and its capital Calcutta have begun to turn their backs on Marxist orthodoxy... Travelling widely in an effort to attract foreign investment, they have vowed that Calcutta will one day outpace Bombay." This part of the grand plan has thus taken 10 months to mature.

There was no mention of alternatives for the pullers in this October 1995 article in *The Guardian*, just as it was not there in the state government's attempt in 1982-84 to ban rickshaws. That this question is now in the air, thus needs to be considered as at least some advance, as does the forthright position that Bhattacharya has taken – at one point - on the contribution that rickshaw-pullers make to the city. If the criticism is that men pulling other human beings is inhuman, and that the overall objective is to humanise society, then the question to be asked is: How can this be done? Can the humanisation of society really be done by executive fiats from above, or does it not require that the pullers themselves are a part of the process? That they must be involved, and that whatever education it requires to achieve this, must necessarily be a part of this? In formal terms, the left has historically always emphasised the necessity of the emancipation of the oppressed, and the successes of many of the campaigns and struggles it has been involved with before and after independence, has come from this strength. But where does the Left Front government in West Bengal stand on this question, in this present case?

Secondly, it is also very important that the public does not allow itself to be hoodwinked and that in the name of providing employment alternatives to 'handrickshaw-pullers and to other interested sections', that what happens is that vehicles are once again introduced, just as in 1983, which in fact all go to strategically-placed 'other sections' who would never have stooped to do something manual like pulling a rickshaw. The state government should be asked to categorically limit benefits of this scheme only to those who were previously rickshaw- or handcart-pullers, and to none else. If the scheme is not workable with these people, then the scheme should be closed – not simply transferred to another group of people. And the government should also be asked to keep in mind: If its scheme does not work, then how will the services lost be replaced, and what other alternatives is it offering to the disemployed pullers?

Thirdly, while it is good to see that the government is this time talking of technological alternatives to the hand-rickshaw, and that the cost of the alternatives is one of the considerations, there is much reason to think that an engine-driven, 'cheaper auto-rickshaw' is neither feasible nor the required answer to the situation; and that some variation of the idea of a human-driven 'city-rickshaw' proposed by Unnayan back in 1984 still deserves a serious consideration. An engine-driven vehicle, especially if made by the likes of industries such as Bajaj and Telco, is extremely unlikely to be available at a cost that the existing hand-rickshaw pullers – and not other unemployed sections – can afford to buy and repay the loan on. On top of this, in an already dangerously polluted city such as Calcutta, it is essential to keep in mind that more engine-powered vehicles on the streets will only add heavily to both noise and air pollution. A human-driven machine can, if properly organised as a scheme, overcome most of these disadvantages. And a machine such as the one proposed by Unnayan is no less dignified than an engine-driven machine.

Fourthly, any such plan has two basic and interrelated requirements. First, it requires that detailed re-thinking be done in terms of traffic and transport planning of the city. This re-thinking must take into account both the kind of real transport needs that the different classes and sections of the city require, in the widely-varying localities that exist (from dense central and north Calcutta, to the more suburban areas), as well as the amount and kinds of road-space that is available and also the local availability of human labour power. Some amount of future planning, attempting to predict requirements and availabilities in the future, is also required. It also needs to be recognised that there is conflict between slow and fast-moving vehicles – but equally, it needs to be recognised that the resolution of this is by no means that slow-moving vehicles should be removed. In some areas, and on some roads, it is the movement of faster-moving vehicles which should be restricted. Zone and route separation (of

fast- and slow-moving vehicles) are possible, and should be tried on an experimental basis in different areas until the right balance is achieved. If it can work in other cities in the world, there is no reason why it should not work in Calcutta. It is a question only of there being available the necessary political vision and political will.

The second requirement is that there is a need to think beyond the level of planning 'for' the people, and to move to planning with them. The meetings that have been taking place with 'non-governmental organisations' of the intelligentsia is better than no meetings at all, but the government needs to move beyond limiting its vision to only the middle-classes – and to directly involve those who are bearing the brunt of the changes it is proposing: the labouring classes, the citizens of the unintended city. Recognising this so-far unintended unrecognised world, involving its members in the planning of their own futures and more generally the city, would constitute one of the most powerful and meaningful ways to change the present situation, and is a prerequisite for a civilised transition from where we are today. Even if the sleight of hand that seems planned can be blocked, simply to legislate out the livelihoods and existence of some people, and to legislate in favour of others, is – though it may have the outward appearance of change and modernisation – no change from a backward past.

Finally, Calcutta has a very special responsibility in this field. It is almost certainly the very last city in the world, and in history, to have hand-rickshaws. Despite the inhumanity of man pulling man, and despite the feudality of the trade, the 'jin rikisha' (man-pulled vehicle in Japanese - it was arguably first introduced there, in about 1869) has played a memorable role in the history and culture of humankind. The struggle of rickshaw-pullers, perhaps precisely because of the mesmerising reminder that it offers of the real nature of human relations in society, has figured widely in the literature of possibly all Asian cultures, certainly in all parts of India. The rickshaw, indeed, has only operated in Asia – in colonial Asia. It was introduced, it proliferated, and it operated as reflection of a time and of societies where humans became cheaper to use as beasts of burden than animals. We are now, thankfully, moving past those times. In almost all other contexts, including within India, the rickshaw – and the rickshaw-puller – was simply driven out, crushed out of existence which, as I argue above, is just as authoritarian as the societies from which they emerged. In this situation, Calcutta needs to do two things: one, and beyond doubt first of all, it needs to phase out its own part in this past in as meaningful and graceful fashion as possible – and equally, to phase in the future in a civilised and democratic way. And two, and especially given its penchant for the unusual, Calcutta should seriously consider establishing – and taking some liberty with the original language – a 'Museum of the Rikisha Jin and the Jin Rikisha' as a testament to the struggle of the rickshaw-pullers of Asia, both in the past and the future.

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End of a Social Revolution?

Amaresh Misra

The Uttar Pradesh assembly elections will be remembered for the decisive turning away of the SP and the BSP from the anti-upper caste, dalit-backward-Muslim agenda to an old, Congress-type status quoist social equation.

IT has been days since an unprecedented 'president's rule' was imposed in UP after a hung assembly verdict failed to throw up a working government. And yet, no solution to the impasse is at hand. With incidents like Kanshi Ram's fracas with scribes in Delhi, the situation, if anything, is getting more complicated with each passing moment. In fact, the continuing deadlock in UP is raising fears about this politically crucial state of the Indian union sliding into a sustained phase of instability.

The grimness of the situation can be gauged by the fact that it confounded several political predictions – prior to the elections, Mulayam Singh was in a vulnerable position while the BSP was riding high. After the results, Mulayam Singh, with 112 seats for the SP, and the UF, with 134 seats and 30 per cent vote, in the second position, has emerged strong enough to refuse co-operation with the BSP. The latter though polling a good number of 29 per cent votes in alliance with the Congress and winning 100 (BSP-67, Congress-33) seats is caught in a bind where its very advantage of using both the BJP and the UF in case of hung assembly has turned against it. The BJP, humbled from an expected majority to 175 seats (32 per cent vote), is caught between the choice of supporting the BSP or offering a vague and facetious promise of winning the confidence vote if given a chance. Even if the present stalemate is resolved and any of the two parties manage to cobble together a coalition government, it is likely to fall soon paving the way for another possible round of president's rule and fresh elections.

At one level, what makes UP, and its instability, different from other states is the existence of three political formations competing for power. This in itself is a unique situation considering that in other provinces, two parties or social forces have normally contended for the control of the state capital. In UP, it was always the Congress versus the rest of the opposition, led in varying degrees by Ram Manohar Lohia, Charan Singh and Mulayam Singh Yadav. The picture was altered with the rise of an 'independent' dalit party in the mid-1980s – a phenomenon without precedence in any other region. This altered the traditional fight between the upper castes and the emerging backward castes from the 1960s onwards.

The rise of dalits proceeded, at first, under the leadership of the backwards, particularly during the Mandal phase of the late 1980s and the early 1990s. But after the break-up of the SP-BSP alliance in 1995 and with BSP polling equal number of votes as the SP in the 1996 parliamentary elections, dalit political assertion was a distinct phenomenon in its own right. But, even then, it could have aligned with the SP which at the social level would have meant an alliance of the backwards, dalits and the Muslims as a new power group formation, capable of filling the vacuum formed by the retreat of the social base of the Congress comprised of brahmins, Muslims and dalits which had provided stability to UP in the past.

The great mystery of UP, which has deepened since the fractured mandate of assembly polls and the inability of the SP and the BSP to get together even for keeping the BJP out, is the failure of this new possibility to materialise. What exactly is stopping the Muslims, the backwards and the dalits to combine? Surely, the individual ambitions and the short-sightedness of leaders like Mulayam Singh and Kanshi Ram, or the political calculations of the UF government at the centre, though important, cannot be counted as ultimate, decisive factors.

Actually there is more to a dalit-Muslim-backward combine than meets the eye – somewhere, deep down, it requires a shake-up of the status quo, more in the nature of a 'class' than a 'caste' struggle. It would mean a cultural shift from centuries of upper caste hegemony and changes in patterns of land and agricultural resources. The tirades against Manuwaad and communalism at the time of the elections were all right. But neither the BSP nor the SP exhibited any vision to go beyond and articulate an alternative agenda to the Congress based on the interests of the class-caste forces they represent. On the contrary, the BSP preferred to fight the elections in alliance with the Congress. It also toned down its anti-Manuwaadi rhetoric and went out of its way to encourage the Congress in fielding brahmin candidates, and giving its own elephant symbol to a number of notorious thakur candidates. While doing so its leaders were not cobbling together a dalit-Muslim-backward combination but the old Congress equation under their own leadership.

Similarly, Mulayam Singh did not seem much interested in a Mandal-dalit unity. His main concern was reviving the old AJGAR equation with a fair sprinkling of the upper castes. This time around 17 thakurs romped home on the SP ticket, not only in Rohilkhand but in east UP as well. The behaviour of these parties shows that their attempt was more to replace the Congress than to find an alternative to it – in effect to present themselves as the 'new' ruling class party or alliance of the 'old' type, bearing no departure from the traditional status quo.

Interestingly, the BJP too was attempting the same thing. Behind the rhetoric of Hindutva and clean government lay not a desire to effect a change of regime but to form a 'conservative Congress' with forwards and the backwards. All the three parties were attempting, more or less, the same thing, albeit under the leadership of different power groups – the BJP trying to bring the backwards, especially the most backward castes (MBCs), the kurmis and the lodhs, closer to the upper castes, the BSP trying to bring the MBCs and the Muslims closer to the dalits, and Mulayam Singh attempting to bring the jats and the forwards closer to yadavs and the Muslims. There was thus a consequent shift in the power base of each party – the upper castes remained solidly with the BJP polling as high as 70 per cent. But the brahmins did shift towards the Congress in a number of constituencies making for a slight improvement in the party's performance. The dalits were with the BSP but the Muslims remained with the SP, and the MBCs polled as much as 54 per cent for the BJP. The yadavs did not flinch from the SP but the jat vote remained divided in west UP giving the BJP 47 and the UF 33 seats, with BSP winning 13. The upper caste vote in Uttarakhand was also not forthcoming to the UF – it got only one out of 18 seats of the region, the rest going to the BJP.

But more crucial is the defeat of all the major parties in their strongholds. The BJP could retain only 70, the SP 51 and the BSP 30 of their seats held in the last assembly elections. The BJP had done well in east UP during the parliamentary elections but the SP edged past it this time. The figures given for east UP on Doordarshan were faulty for they included part of Avadh in their projections. They showed the BJP tally at 59, the UF at 55, the BSP at 36 and the Congress at eight. But if the real east UP, non-Avadhian, non-Allahabad districts (Jaunpur, Azamgarh, Varanasi, Ballia, Ghazipur, Mirzapur, Sonbhadra, Gorakhpur, Doeria, Basti) are taken, the BJP's losses are much higher.

In Rohilkhand, where the BJP won 21, and the SP and the BSP 16 and 10 seats, respectively, and where the SP was expected to do better on account of previous parliamentary performance, it was the other way around. In Allahabad, from where the BSP had won nine out of 14 seats, the party's tally was brought down to three. But in other districts of the Lower Doab, Kanpur and Fatehpur, former strongholds of V P Singh where the Janata Dal and prime minister Deve Gowda had pitched up their stakes, it was the BSP which did well. The party also competed with the SP in giving a tough fight to the BJP in the saffron strongholds of central UP and Avadh. In Bundelkhand too, the BSP won 10 seats, pipping past the BJP (7) and the UF (3)

These shifts denote that while the overall pattern of caste voting is the same, a great amount of instability exists at the grass roots level within the base forces of these formations. Yadavs, brahmins and dalits are voting for their parties but they may not be the same yadavs, brahmins who did so the last time. Moreover, all the major parties are standing with one or two bloc forces and then trying to win a third from the other party. Stability could have been expected if there was a stable polarisation between two forces leading to a movement away from the 'third' force to the two main ones. But in UP, the top level competition for the ruling space had become intertwined with intense conflict of social forces and their power groups, and the assertion of the lower orders. It is this, clearly 'class ridden' situation which is giving rise to the dilemma of the BSP – a party whose aim is to forge an alliance of the MBCs, dalits and the Muslims but whose compulsion is to ally with the Congress in order to stay in the race of power. The UF is pitching itself as an alternative to the BJP and the Congress. And yet dalits do not figure in its scheme as it would alienate its principal constituency. In these elections, Mulayam Singh did emerge as the principal anti-BJP, anti-Congress force enjoying the confidence of the secular intelligentsia. But the former chief minister has been able to only regain his lost position and is far from gaining his previous popularity. Within the BJP too, the forward-backward, mandir-non-mandir struggle is making things difficult for a stable policy on issues to evolve. Just before the elections, there were speculations in a section of the press about attempts to wean away Kalyan Singh from the BJP by offering chief ministership. Even now, nothing can be ruled out – the coming days may see break-up of parties The top level politicking will ultimately see the marginalisation of either the BSP or the SP, the emergence of any one stable pole against the BJP or, even, the revival of the Congress. The UF seems to have lost clout after the imposition of the president's rule which theoretically favours the BJP. The BSP too is expected to gain since both the BJP and the UF can be accused of stalling the installation of a dalit chief minister. But the BJP has reached a kind of exhaustion point where it would require more than a negative wave against any one party to romp home with a majority. The BSP too, has been pushed into a groove from which to extract itself would need something more than old slogans and rhetoric.

There is also a possibility of the instability producing currents favouring the extension of authoritarian measures like the president's rule or other draconian laws. This situation can also lead to change of political equations at the centre – the deadlock may prompt the Congress, now under a new leadership, to reach for a showdown with the UF. The set back suffered by the BJP explodes the myth of the party representing the psyche of UP or any such misplaced generalisations. It also shows that the party is vulnerable at the ground level, where it is facing a real 'class' challenge both from new ruling power groups and the lower sections. There are no sure gains, as of now, in a revival of the mandir card and it can only gain from the weaknesses of the centrist parties. As regards the SP and the BSP, the current elections will be remembered for their decisive turning away from the anti-upper caste, dalit-backward-Muslim agenda irrespective of their public postures or future course of actions. They mark another phase in the beginning of the end of the social revolution in UP which had appeared so promising only a few years ago.

With this, a new space opens for new forces, especially those interested in forging a backward-Muslim-dalit unity on an anti-status quoist plank. Though the Left, despite the involvement of Harkishen Singh Surjeet in the affairs of UP, is still of little importance, it was not entirely written off in the elections. The CPM won four and the CPI one seat, through the support of the SP, which was creditable. The CPI(ML) also was able to increase its votes – it was for the first time that the party emerged as a force to reckon with in some constituencies of east UP with a discernible mass base. It was also prominent in political discussions especially in view of its announcement that the Left ought to come forward to fulfil the historic demand of an alternative based on basic issues and the assertion of dalits, backwards and Muslims.

Bargi Dam: Oustees Pay Price of Development

Dilip D'Souza
Mahesh Gavaskar
Suresh Rajeshwar

Oustees from the Bargi dam area were brutally assaulted by the police on August 18 when they refused to allow the reservoir wall to be built to the height decided upon by the Madhya Pradesh government.

ON the morning of August 18 a police force of more than 100 constables (including seven lady constables) and 10 to 15 police officials, led by the collector and the superintendent of police (SP) of Seoni district, landed in Bijasen. A satyagraha had been going on in Bijasen, a remote village on the banks of Narmada in Madhya Pradesh, since July 21. The satyagrahis, numbering more than 500, were among the thousands displaced by the Bargi dam. They were demanding proper rehabilitation threatening to drown themselves if the water level in the Bargi reservoir exceeded 418 metres. It may be recalled that the government of Madhya Pradesh (GoMP) which planned 105 megawatt electricity generation and 4.44 lakh hectare irrigation from the dam, prepared no comprehensive rehabilitation scheme for thousands of dalit, adivasi, artisan and fisherfolk families affected by the very dam. Deprived of their sources of livelihood and paid measly monetary compensation, the displaced families were forced to eek out their livelihood by toiling as agricultural and manual labourers in adjacent districts. Organised protests by the dam-affected people for complete rehabilitation since 1991 forced the GoMP to constitute a committee on June 13, 1995 under the chairmanship of B D Sharma, to study the issues and recommend rehabilitation measures. But because of administrative delays, financial difficulties and differences of opinion on normative grounds, the committee was not able to put together any concrete measures for rehabilitation.

The satyagrahis constructed two huts on the river bank at 418 metres in Bijasen. The collector, Sanjay Bandhopadhyay, and the SP, Sanjay Jha, made occasional visits since July 21 to dissuade the satyagrahis from their

determination to drown-themselves. But as the water level started to rise since August 16, and their last ditch effort on August 17 to persuade the satyagrahis to withdraw their agitation failed, the collector and the SP arrived on August 18 with a sizeable contingent of police for a final showdown.

The police cordoned off the village. The SP declared the satyagraha an unlawful assembly. His force arrested Rajkumar Sinha, Asit Kumar and 13 other satyagrahis (including three women). When the satyagrahis began to resist the arrests of their leaders, the police used force to drive away the satyagrahis. Tulsibai and Manglubai received lathi blows on their stomach, buttocks and wrist, while Rajkumaribai, one of the arrested, received a deep lathi wound on the upper part of her thigh. Pandemonium also broke out in the huts. The 500 assembled satyagrahis, including 80-90 women, began running helter-skelter. The satyagrahis allege that the police resorted to lathi charge. A few were even hit by rifle butts on their elbows and forearms. The police pushed lathis between legs of some women, lifting them and throwing them some distance away. Manojkumar Thakur, a 12-year old boy, sustained an ugly wound on the left cheek from a lathi blow. 60-year old Acchelal had his wrist broken while 70-year old Jamnabai got a wound on the elbow, when the police delivered her a lathi blow while she was sitting in the hut. The police chased the fleeing villagers right into the village, pelting stones at them. After making the arrests the police party dismantled one of the huts and seized a number of items.

Clear evidence of police brutality is available in the account of Sher Singh and Sakar Singh. Both were coming from Kudwari village to join the satyagraha in the afternoon when they came to know about the police action at Bijasen. They also came to know what befell Manojkumar Thakur who is Sher Singh's nephew. On reaching Bijasen, the village kotwal told them to meet the collector. But on approaching the collector, the police beat them ruthlessly. Sher Singh lost consciousness and regained it only after reaching Lehri Kol. Both were kept without food for 36 hours. On August 19, they were taken to the Indian Red Cross hospital in Seoni for X-rays. Both were made to pay for the X-rays but whose report was not made available to them. On August 20, the two men were produced before the judicial magistrate, and it was then that Rajkumar Sinha spotted them and their story came to light.

Government's Omission

The collector and the SP categorically denied having ordered a lathi charge on August 18. In fact, the collector was of the opinion that the agitationists had deliberately chosen the inaccessible village of Bijasen in order "to harass the government machinery". Though the SP admitted that the villagers had "legitimate" and "genuine" grievances, the collector, beyond admitting that the area is poor and tribal, seemed hardly sympathetic to the plight of the villagers. His alternatives that the GoMP would guarantee wage labour to the dam-affected people by initiating a scheme similar to the Maharashtra's EGS, and would allow the villagers till the land in the affected area after the water level recedes below 418 metres in the rabi season, appeared to be mockery of the long struggles the villagers have been waging for adequate resettlement. This nonchalant attitude of the top-level government officials is nothing new. R C Dubey, the ex-commissioner of the Jabalpur division, in a report submitted by him to the GoMP in 1987 remarks:

> What really appears sad about the project is the situation of the proverbial cart having been placed before the horse. Any such project requires meticulous planning and careful implementation, involving complete and accurate information on all the important variables to be dealt with - cultural, environmental, economic and the rest of them. A plan for the resettlement of the persons to be displaced should be ready before the work starts on the project. In the instant case, the dam is more or less complete and is expected to attain full reservoir level this year but the plan for resettlement is being thought of now... [R C Dubey, *A Plan for Roof: Bargi Dam Project in Seoni, Mandla, Jabalpur Districts*].

These comments show that the negligence of rehabilitation measures has been the characteristic of government's *modus operandi* right since the beginning of the construction of dam.

The GoMP conducted three sample surveys for the resettlement of the oustees. The first survey conducted by the project officers in 1979 maintained that 7,735 families (i e, population of 27,000) would be affected by the dam, of which only 25 per cent (i e, 1,935 families) would require the government's assistance. How these figures were reached is still an enigma. The next survey conducted in 1982 led to the preparation of resettlement plan for the oustees in 1983. This plan made a provision of Rs 226 lakh for the construction of 14 model villages on the basis of facilities and provisions stipulated in the Narmada Tribunal Award. This plan never saw the light of the day. Yet another survey was conducted in January 1986 covering 81 villages. But as R C Dubey mentions in his report, "The project authorities do not seem to have undertaken a comprehensive survey of the affected villages to ascertain the sectionwise and districtwise number of affected households and population" (*A Plan for Roof*, p 17). That the rehabilitation of the oustees of the Bargi dam occupies lower-most priority for the GoMP can be gauged from the fact that out of Rs 412 crore spent on the dam, only Rs 16.98 lakh (0.04 per cent) have been spent – and that too, on an ad hoc basis – on the rehabilitation of the uprooted people.

The indifferent attitude of the GoMP continues. Neither Harbans Singh nor Urmila Singh, both MLAs from the region and members of Digvijay Singh's cabinet, deemed it necessary to look into the episode of August 18. The dam now generates hardly 40 megawatts of electricity and does not even irrigate 20 per cent of the land that it was supposed to. But, the once-prosperous cultivators of Bargi, Bijasen, Gopitola, Kudwari villages slog as rickshawpullers, construction labourers and agricultural labourers in Jabalpur and nearby towns. Such has been the suffering of the victims of 'development'.

[This is based on our visit as members of the Committee for the Protection of Democratic Rights (CPDR) to Jabalpur, Bijasen and Seoni on August 23-24. We thank Anurag Modi and the colleagues of the Bargi Bandh Visthapit evam Prabhavit Sangh for arranging our visits to these places.]

Emerging from Crisis

Nigel Harris

The reform government of Alberto Fujimori has succeeded in radically restoring domestic security and economic growth of Peru. Nevertheless, this has been at the cost of an inert civil society and over-concentration of power in the person of the president.

FOR up to 10,000 years – roughly as long as anywhere else in the world – cultures of great diversity and sophistication have flourished on the three strips of territory, north to south – coastal desert (with oases), the mountains (the sierra) and the jungle (the selva) – the bulk of which came to form modern Peru. The most famous material employed in the more modern of those cultures was gold, and gold is a symbol of an immense wealth of raw materials in the country. Some have called them 'gifts of the devil' because they have allowed, they say, growth without development, or a development for the mass of the population well below those countries with nothing but intelligence and aptitude as a resource.

The raw materials are impressive – the key mining exports of copper, lead, zinc, and gold (with iron, phosphates, manganese and silver); oil; and immense wealth of sea, farm and forest. The exploitation of these riches supported a 1994 per capita GNP of 2,110 dollars (or 3,610 dollars at PPP). They also supported a manic-depressive cycle of boom and slump, political regimes alternating between expansionist export-led boom liberals and import-substituting economic nationalists, sometimes coinciding with the exchange of military and civil orders. And the growth was characterised by extraordinary levels of income inequality (greater than the notorious cases of Brazil and Mexico), and geographical extremities of wealth, between the coastal oases (particularly Lima with a quarter of the population) and the poor villages of the sierra and the selva.

In the 1990s, the country is returning from two decades of economic nationalism and, latterly, civil war, a period of unmitigated disaster for the majority of Peruvians. In 1992, private sector wage earners received incomes 35 per cent of the 1981 level or 23 per cent of 1973. Real incomes in 1996, after six years growth, were still below the level of 1960. In Lima's downtown, the handsome mansions of the past are half derelict or boarded up, the pedestrian alleys converted to permanent flea markets, selling cheap clothes and plastic goods. National infrastructure investment declined on average by 6.5 per cent annually in the decade to 1992, so the roads are potholed, the ports congested, power stations creaking. The cost of moving goods is said to account for half the costs of exports (and are 50 per cent above neighbouring Chile). Perhaps the climax of the long nightmare, the great cholera epidemic of 1991 (ultimately spreading as far north as Mexico), is also attributable to the neglect of infrastructure investment – the resulting losses to tourism and agricultural exports, put at $ 1 billion, were three times what had been invested in water and sanitation in the 1980s.

Historically, exports were relatively easy. But they were produced by big farmers, financed by foreign banks, or big foreign mining companies, neither of which involved masses of the local workforce. With such a ruling class, the state was required to keep order, not develop the country. The military-civil oligarchy that ran the country up to the 1960s was rarely challenged – the structure of the economy entailed weak social movements, trade unions and middle classes. Abundant exports allowed unlimited imports without local development – by the 1970s, a fifth of the food supply was imported. In the 1990s, it is said that a quarter of Lima's food consumption is imported, implying both a relatively weak relationship between the city and agricultural producers, and a weak stimulation of rural output by urban demand.

I

Like other predominantly raw material exporting countries, Peru's economy has been created by surges of growth in world demand. Growth made immense fortunes and thus the means to create the infrastructure to facilitate exports, leaving much of the rest of the country undeveloped. The guayano boom (1830-81) initiated this pattern of growth, followed by a boom in sugar, copper and silver from the 1890s, in cotton after the turn of the century, in wood and rubber. Between 1898 and 1918 exports increased eight-fold.

The interwar great depression forced the government into protectionism like the rest of Latin America. However, after 1945, the country was opened up again to exports – copper, oil, iron, agricultural produce and fish (by 1970, Peru was second only to China in the volume of fish caught, 18 per cent, and produced 40 per cent of world fishmeal). It was a military regime that supervised this phase of growth, albeit with a social programme to increase mass education, housing and incomes. Electoral politics returned in 1956, but by the middle of 1967, a major foreign exchange crisis was the prelude to a much more radical military intervention.

In 1968, General Juan Velasco introduced 12 years of the revolutionary government of the armed forces. It was Peru's answer to the innovations of third worldism – of Nasser, Sukarno, Nkrumah and many more in the 1950s and 1960s. Velasco was dedicated to employing the state to rectify the perverse patterns of Peruvian development, to establishing national economic independence, to raising the position of the poor, the Indian (Quechua and Aymara-speaking) of the sierra and the selva. To the eyes of an hysterical Washington, he was a second Castro, and briefly aligned Peru with the Soviet Union. The military government carried out a radical land reform to strip the great landowners of their estates encourage co-operatives, nationalised the oil industry (Petroperu), the larger mines, public services, and a number of industries and part of the press. The borders were closed to most imports in favour of local production. In 1973, the great post-war success story, the fishing industry, was expropriated – and immediately began to decline.

When, in 1980, elected governments were restored, they faced – in conditions of world recession – the onset of a debt crisis (Mexico defaulted in 1982), shrunken exports, high rates of inflation, the beginnings of two major campaigns of rural guerilla warfare – the Sendero Luminoso (Shining Path; members were known as Senderistas), supposedly of Maoist persuasion in central Ayacucho, and the Fidelista Tupac Amaru in the north. Between 1983 and 1985, the GDP shrank by 13 per cent. Nothing daunted, the electorate voted into office in 1985 Peru's famous Left opposition, Apra, under a new president, Alan Garcia.

Under president Garcia, present disasters joined an impressive record of past errors. Apra's diagnosis of Peru's condition attributed economic decline to weak domestic demand, exacerbated by the strain of debt-

servicing. The government increased real salaries and public spending, while unilaterally imposing a limit on the servicing of external debt of 10 per cent of export revenue (this led straight to default and the ending of most credit to Peru for seven years, a disaster for export industries). Expanding spending had some initial success in stimulating growth, but by late 1986, the economy had come to a halt and the external and budgetary deficits were becoming insupportable. There was a flight of capital, the reserves shrank rapidly, inflation soared and real wages declined. In 1988, the government tried to freeze public sector prices, the exchange and interest rates. The economy was paralysed – and inflation reached 30 per cent per month (and at one point, 6 per cent per day). In these chaotic conditions, the guerillas advanced on the one hand, and narcotic traders on the other (Peru produces 60 per cent of the raw material for the world's cocaine), but even more swift was the growth of the official repressive machine, the army and police.

The economic performance was catastrophic. Consider the GDP growth rates: –8.3 per cent (1988); –11.6 per cent (1989); –5.4 per cent (1990), with an average of –0.2 per cent for the decade of the 1980s. Or mining exports (1986-90): –4.5; –3.0; –15.0; –4.9; and -8.7 per cent. Or manufacturing (1988-90): –11.2; –15.7; –5.8 per cent. Or real wages and salaries (1988-90): –23.6; –46.7; +4.4 per cent. Meanwhile the rate of inflation went from 667 per cent in 1988, to 3,399 the following year, 7,482 per cent in 1990 and 4,095 in 1991. The Garcia government soldiered on, accelerating towards the precipice. It bravely covered the yawning debts of the parastatals –4.2 billion dollars in 1989-90, or enough, according to former privatisation minister Cordova, to build 14,000 12-classroom schools or 42,000 kilometres of road.

In fact, the official picture is misleading. An increasing part of the economy was slipping out of the statistical recording system. Popular ingenuity withdrew the struggle for survival from official view. It was estimated that 35 per cent of employment was 'informal' in 1984, and 44.5 per cent in 1993. As a proportion of total employment, micro enterprises increased from 10.4 to 14.3 per cent in the same period, and street-sellers, from 11.6 to 41.4 (1990) and 50.4 per cent (1993).

If the informal sector was the innocent parallel of the economy, the guerillas were the unofficial version of an increasingly brutalised army. The Senderistas, variously compared to the Khmer Rouge or the Japan Red Army, responded in kind, and both competed in steadily mounting scale of savageries. Abimael Guzman was the main leader. Child of an important family in the southern city of Arequipa, he is credited with germinating the ideas of Senderismo, drawn from the thought of Mao, in the philosophy department of Ayacucho University (the Chinese connection made his *nom de guerre* 'chairman' Gonzalo, instead of the normal Latin American title of president). The Sendero grew steadily through the 1980s, creating a cadre drawn from the universities and the intelligentsia but with roots in the shanty towns, to peak at about 10,000. At its height, it seemed capable of paralysing the country with impunity, shutting of Lima's electricity supply, destroying pipelines and highways. Through the activities of the army and the guerillas, possibly one million people were displaced and 30,000 or so killed.

Lawlessness – including the growth of the narcotics trade and associated gangs – justified the building of a repressive apparatus of considerable size. The army is still in charge of 15 provinces under emergency rule. The belligerents left a trail of devastation – with possibly 30 billion dollars cumulative losses. There is also a pervasive climate of insecurity. Some Lima houses are still encased in steel cages against the sudden bomb, and factories and barracks have guardhouses high up on the corners of their walls with hooded armed men watching through slit holes. Security guards in flak jackets, police and soldiers are everywhere, loafing or watching.

II

After the experience of the 1980s, political parties in Peru were discredited. Both leading candidates for the presidency in 1990 opposed the party system. To general surprise, a little known university rector, Alberto Fujimori, was chosen over Peru's most famous novelist.

As first priority, the new president gave the armed forces their head to smash the guerillas, and in economic affairs, sharply moved into reverse with a drastic stabilisation programme, major cuts in public expenditure, tight fiscal and monetary controls (with the elimination of subsidies), liberalised prices (in one famous case, the price of gasoline is said to have increased overnight from 17.5 to 21,000 Intis per gallon) and the energetic pursuit of foreign investment and privatisation.

In the case of the repression of the guerillas, the new government was more effective than anyone, in the light of the record of the preceding decade, could have imagined. The campaign culminated in the capture of Guzman in 1992, and in a well publicised trial, his sentence to life imprisonment. Thousands of cadres were captured or faded away into NGOs in the slum or squatter areas; some, it is said, joined the narcotics smugglers. Political killings dropped by four-fifths by 1995, when 520 died, none of them in Lima. There were new incidents in the middle of this year, but of marginal significance outside the remote coca growing areas. Military intelligence, not the most reliable source in the past, estimates the number of cadres surviving at under 10 per cent of the 1990 level (or between 500 and 1,000), the majority in remote areas and under the command of Oscar Ramirez who, it is said, does not accept Guzman's tactics. Only the sadly defiant slogans remain, with their bizarre echoes of imperatives translated from the Chinese – in London, 'Move heaven and earth to free chairman Gonzalo', and in Lima, 'Overcome the reverse by developing popular war!'

The turn-round in the economy is only slightly less dramatic. In the three years to 1995, the growth of economy averaged 8.7 per cent, the fastest in Latin America. This was partly through increased utilisation of very underutilised capacity. But there was also an investment boom – between 1980 and 1990, gross domestic investment declined by –4.2 per cent annually, but expanded by 10.7 per cent annually in the first four years of the 1990s (while domestic savings increased from 12.5 per cent in 1992 to 17.5 per cent in 1995). Part of this was an inflow of foreign funds; the restoration of stability and positive real interest rates (as well as the opportunities provided by the privatisation of public enterprises) led to an increase in foreign investment from 1.36 billion dollars in 1990 to 7.8 billion dollars in 1995 (equal to 6.9 per cent of GDP between 1993 and 1995, 48 per cent of the inflow being long-term capital). The inflow was partly repatriated funds that had earlier fled, but it covered the external deficit and allowed high imports. Exports were rapidly diversified and grew by 9.9 per cent annually (1993-95). The public sector deficit was cut (from 7 to 1.5 per cent of GDP, 1989-91), and the annual rate of inflation declined to about 10 per cent.

Some four-fifths of the holdings of the state in 1990 have been sold, including telecommunications, mining, electricity generation, fishing, banking and transport, raising some 5 billion dollars for the public exchequer. The government is continuing in the face of some opposition to privatising the oil industry (the first units of Petroperu were sold in March). Finally, Peru has resumed servicing its external debt, and about half the debt has been rescheduled. The cumulative

total is said to be about 30 billion dollars, equal to some 406 per cent of the value of exports (compared to Argentina's 345; Brazil's 262; and Mexico's 171 per cent). The servicing burden takes about 64 per cent of export earnings.

In 1992, the president claimed that the bureaucracy of the state and the old political parties campaigned to dilute or obstruct his reforms. With the support of the army (although one general tried to lead a coup), he suspended the constitution and the assembly. He argued that the line ministries were incapable of offsetting the social effects of the reform programme, and sacked about 45 per cent of the workforce. He concentrated the powers in an expanded office of the presidency and a number of parastatal organisations. The new constitution created a new, smaller and single-chamber assembly, banned political parties in elections, and allowed, for the first time, the president to run for a second period in office (in the 1995 presidential elections, Fujimori was again victorious).

Perhaps others had higher ambitions. In the late 1980s, the military are said to have prepared a plan, the so-called 'Green Book', to establish an authoritarian regime in Peru for 15 or 20 years to once-and-for-all supersede the chaos inflicted on the country by elected governments. The person said to have been centrally involved in the preparation of the plan is now a high adviser to the president and in charge of his intelligence services, Vladimiro Montesinos. Montesinos as an army captain in the 1970s, was charged and jailed for spying for the CIA.

Be that as it may, the president made considerable efforts to develop anti-poverty programmes. Spending on social sectors, on official claims, was more than doubled in per capita terms (from 64 to 134 dollars or 10 per cent of GDP). Educational expenditure was also expanded, and a programme of building new schools is very evident, covering 88 per cent of the relevant age groups. However, there are immense deficits to be made up – there may be shiny new schools, but the pay of teachers is only one-fifth of what it had been a decade earlier, there are few books, equipment or infrastructure (many rural schools lack electricity or drinking water); the drop-out rate in some rural areas is said to be 60 per cent. Spending per student is still only a fifth of the 1970 level. There has been a similar drive to extend health clinics, but still there are great maldistributions – in Lima, there are 800 people per doctor, but 12,000 in the poorest provinces; hospital beds range from 1 per 666 people in the capital to 1 per 1,250 elsewhere.

III

The most severe problems of Peru concern the striking level of cumulative poverty and inequality, exacerbated by two decades of economic mismanagement. Inequality has always been an issue – in the 1960s, the poorest 40 per cent received 8.8 per cent of personal income (compared to 14 per cent on average for 43 developing countries). Sustained growth between 1950 and 1966 seemed only to make this worse – when per capita income increased 2.1 per cent annually in that period, the 'modern sector' increased 4.9 per cent; the urban, 2.0; and rural Peru, 1.3 per cent. While the coastal areas took the lion's share, the poorest – non-coastal small peasants – experienced no increase: they were not connected to the central dynamic of the economy.

In the years of military and nationalist rule, the problems worsened. Between 1970 and 1980, the proportion of the urban population in poverty increased from 28 to 45 per cent (and those in extreme poverty, from 8 to 16 per cent); the rural poor decreased from 68 to 64 per cent (and those in extreme poverty stayed the same at 39 per cent). There was some reversal in the 1990s, although still around half of the population is officially poor (but the extremely poor did decrease, from 24 to 20 per cent). In Lima, poverty declined from just under a half of the population to a third; in the urban sierra, from 47 to 46 per cent, and the rural sierra, from 68 to 66 per cent (there was no data on the thinly populated selva). The Indian-language speakers fared much worse – 42 per cent of the Spanish-speakers nationally are poor (and 13 per cent very poor), compared to 60 per cent of those who speak Quechua (a third are very poor), and 86 per cent of those speaking Aymara (70 per cent are very poor). For Indian women in the rural sierra, conditions are the worst. The measures are duplicated in each sector. Over a third of the rural population is illiterate, but 70 per cent of rural women.

However, despite the record in income, the figures on the average expectation of life have not deteriorated and now stand at 66 years. Infant mortality is nationally 64 per 1,000 – but in Lima, 26, and in the rural sierra Huancavelica, over 100. In the 1990s, consumption for the poorest fifth of the population improved by 32 per cent, a change made possible, it is said, more by the establishment of peace so that farmers can get their output to market than any public social programme.

The severe deprivation of thousands of remote Andean settlements – mainly of Quechua and Ayamara speakers – is a key target for public action. Yet the state is stil a major obstacle to effective public action paralysing and paralytic, combining a bloate and inefficient executive, an irrelevant an fractious legislature, and a painfully slov and corrupt judiciary. Furthermore, the civi apparatus is now overshadowed by th security arm, the army, police and intelligenc services, backed by a famously brutal priso system. The army directly controls a majo part of the country (which includes thos areas where coca is grown), and by reputation, it is more terrifying than the guerilla were – even if the 1995 clash with Ecuado suggests it was less effective against a foreig army.

The state, armed and civil, has come to b centralised on the person of the president Thus, the reform government that ha radically turned the country round in term of domestic security and economic growt has nonetheless immensely exaggerated th traditional issue of the concentration of powe – a ceaselessly active president and an iner civil society. The president is in perpetua daily movement, a Santa Claus deliverin presents to the most remote areas, throug his whirling helicopter personally holdin the country together.

His key political base is the army. H purged the high command before the 199 coup, and in return, the army gave undivide loyalty to the coup. He has protected th army against the numerous accusations o brutality, murderous injustice and corruption In June last year, he slipped through th assembly an amnesty law to protect the armed forces. His supporters have restructured the intelligence services and have expanded them to include all agencies, including the army. He has also tried to enhance the popular image of the army by pushing it into rural development projects – organising health services and emergency food supplies. Up to late 1995, the president rejected the evidence of military involvement in the narcotics trade, but he has now supposedly accepted the accusation and ordered the army to end its involvement in counter-narcotic activities. The reprimand seems hardly likely to deter anyone.

So far, the popular loathing for the 1980s has meant the president has been popular, with a 60 to 70 per cent approval rating in the polls. The popularity does not extend to his minions – his candidates were defeated in last year's municipal elections, most dramatically in Lima. He won a second term as president, and now his supporters in the assembly have, by means of some neat constitutional footwork, forced through a legal amendment that allows him to run for a third term (2,000-2005). He does not need a Green Book.

However, it is at this stage that elected political leaders usually overreach themselves and start going into terminal decline. The projected rate of growth for 1996 is down to 2.3 per cent (the soothsayers foretell a resumption of 6 per cent growth for 1997-99), much below what is needed to get Peru back into its peak prosperity. The external debt situation still remains very threatening. And the narcotics issue will not go away while Washington is concerned – Vladimiro Montesinos, a key security adviser to the president, has just been accused by a top narcotics trader on trial of taking bribes of 50,000 dollars per month to secure army protection to fly his cocaine cargo out of his airstrip. The charge has been denied, but less well known army chiefs in key localities are almost certain to be involved in the drugs business.

President Fujimori can ride these still small waves, but sooner or later, his triumphs will be forgotten and he will come to be hated for directing a virtual dictatorship. It is the natural justice of populist regimes. At that stage, civil society will come back into its own. There are few traditional institutions left – political parties are lying low; the judiciary is discredited; the trade unions defunct; regional and local authorities severely weakened. Only the NGO sector seems to be flourishing.

The country is rich and has, as it always has had, great opportunities. As so often, the economic promise is constantly frustrated by the fantasy world of government and, despite all the protestations and reams of policy paper, the apparent frequent indifference of politicians to the fate of their citizens.

AIDS Extravaganza in Vancouver

Moni Nag

By focusing on the recent advances in the treatment of AIDS patients, the international AIDS conference in Vancouver and the media covering it failed to highlight the more immediate need to expand the AIDS prevention programmes in developing countries.

INTERNATIONAL AIDS conference (July 7-12) in Vancouver was attended by about 15,000 delegates. Over 15 million dollars were spent. Delegates dined well in magnificent hotels and enjoyed well-planned sight-seeing tours. Hundreds of speeches were made, hundreds of papers presented and hundreds of journalists were busy in reporting selected proceedings all over the world.

But what did the conference achieve, particularly for controlling the rapid spread of AIDS globally and for the victims of AIDS in developing countries where over 90 per cent of all persons infected with HIV (virus that causes AIDS) live? Very little. Delegates from these countries presented interesting papers based on prevention programmes in their respective countries but did not learn much that would be of use to them.

The conference, and the mass media reporting it, were dominated by the news of recent advances in the treatment of AIDS patients. So far there is essentially one major drug, AZT, which, in combination with a few other drugs of the same family, is moderately effective in slowing the progress of HIV in causing full-blown AIDS. But AZT is highly toxic and practically unaffordable in developing countries. A few medical scientists working mostly in the US laboratories presented their findings on a whole new family of drugs called protease inhibitors. By combining these new drugs artfully, they have succeeded in suppressing the HIV in a small number of patients for limited periods of time. In the most dramatic experiment, the virus became undetectable for up to 300 days after participants started taking a three-drug combination.

A few scientists claimed that the new evidence suggests the possibility of finding in near future a drug treatment that might completely cure AIDS that has been so far largely incurable and almost invariably fatal. But to critics, merely raising the possibility of cure at this stage is far too premature and also perilous.

Nobody knows for sure that the new treatments will work over the long term. They can cause severe side-effects, like kidney stones and nausea. Many patients will find it extremely difficult to take more than 15 pills a day indefinitely - often on an empty stomach – and at precise times. It is also possible that the wily AIDS virus will eventually develop resistance to the new potent drug cocktails. These are the reasons for which Helen Gayle, who heads the AIDS programme at the centre for disease control and prevention in Atlanta, cautioned the delegates that there is yet "no cure on the horizon".

Too much optimism for finding a cure for AIDS in near future could create a false sense of security, leading many people to drop their guard against unsafe sex and other risky behaviour on the assumption that they could be cured if they did become infected. Some fear that medical science could get a huge black eye if a widely publicised effort to cure AIDS fails. Another fear is that widespread publicity about success in AIDS treatment could threaten – with disastrous consequences – funds for useful AIDS prevention programmes.

The most crucial constraint on the use of any AIDS drug in developing countries is its prohibitive price. The cost estimates talked about in the conference for a year's course of the new therapy ranged from 10,000 to over 15,000 dollars. But figures estimated by some actual users in the US are much higher even for the drugs being used so far. Larry Kramer, a prominent homosexual activist, recently wrote in a *New York Times* magazine article that the cost of his current drugs, which do not include a protease, amounts to 19,000 dollars a year. He thinks that full-blown AIDS patients can find their drug cost around 1,50,000 dollars. Improvement in manufacturing technology, economies of scale and competition between drug companies may bring down the price to some extent. But even then these drugs will remain a far cry for millions of HIV carriers and AIDS patients in developing countries.

In any case, the wide publicity given to the new drugs in the conference will benefit a few drug companies and some medical scientists aspiring for Nobel Prize and other similar awards.

The only feasible option for dealing with the growing AIDS menace in developing countries is to control it through prevention programmes aimed towards behavioural changes in sexual activities and addictive drug consumption, adequate supply of safe blood for transfusion, etc.

Peter Piot, executive director of UNAIDS, pointed out in his opening speech at the conference that India has by now the highest number of HIV-infected persons (3 million) in the world and that the number is increasing at a very rapid rate. But India got very little attention in the conference proceedings and the media as well, although a large contingent of government and non-government delegates from India attended it. Even African and other developing

countries where full-blown AIDS has already created a havoc did not get the importance they deserve.

Many delegates from developing as well as industrialised countries had experience of working in AIDS prevention programmes. Papers describing moderate to remarkable success in reducing the incidence rate of HIV infection and/or changing favourably risk-prone behaviour of targeted groups were presented. A few examples are cited below.

In sub-Saharan Africa, condom sales increased from one million annually in 1988 to more than 167 million in 1995. Uganda's educational campaign which started in mid-1980s is now paying off. Alongside more condom use, people are practising abstinence and many young people are delaying first intercourse. As a result, HIV incidence is declining. If Uganda, one of the poorest countries with sexual behaviour pattern highly favourable to HIV transmission can reverse its trend, there is definitely hope for reversal in other developing countries. More than three-fourths of all adults living with HIV/AIDS worldwide are in sub-Saharan region but, for various reasons, there is a great variation within the region. Adult HIV prevalence rates range from 0.1 per cent in the Comoros to more than 18 per cent in Botswana.

In Thailand, aggressive condom promotion and enforcement of condom use in red-light areas have led to significant decrease in HIV transmission in men, particularly among the young. In Australia and New Zealand, prevention programmes of the governments in co-operation with gay organisations have helped lower HIV prevalence within the gay population. In the US and some other European countries, programmes for free distribution of injection equipment to intravenous drug users have reduced the practice of equipment-sharing and thereby controlled the spread of HIV among them.

In India, prevention programmes initiated by non-government and government organisations in red-light areas of some cities have shown remarkable success in increasing the use of condoms among female sex workers and reducing the prevalence of sexually transmitted diseases among them. Powerlessness of female sex workers to make their clients use condom – often cited as a serious constraint on the use of condoms – appears to be slowly overcome in programmes which go beyond education and free condom distribution.

One common component of successful programmes has been the use of female sex workers themselves as peer educators and condom distributors. It seems that helping the sex workers to form their own associations, co-operatives, etc, can empower them to resist exploitation by clients and other groups involved in sex industry. The AIDS prevention project led by the All India Institute of Hygiene and Public Health in a red-light area of Calcutta (where the HIV prevalence is still around 4 per cent while in many other Indian red-light areas it ranges from 30 to over 50 per cent) provides a good example of the latter.

The papers describing findings like the above did not generate as much intensive discussion and publicity as they should have. It is unfortunate that the Vancouver conference has missed an excellent and timely opportunity to become an international forum for valuable exchange of information and views regarding appropriate strategies for controlling HIV/AIDS in varieties of socio-cultural settings.

Redefining Development

An Alternative Paradigm

Bagaram Tulpule

An examination of the implications of an alternative development paradigm for important areas such as agriculture, industry, energy, capital and the respective roles of the market and the state.

THE only model of development placed before us today is the one represented by what are called the 'developed' or industrialised countries. The rest of the countries in the world in different stages of underdevelopment are straining to develop according to the same model, with varying degrees of success. A few have reached the threshold and are about to enter the developed countries' club. At the other extreme, large parts of the world, especially in sub-Saharan Africa, as well as large segments of the populations within many countries at intermediate stages are altogether excluded from this process of development.

Whether some of the ancient civilisations of China, India, Central and South America left to themselves would have evolved other models of development remains a moot question. For they were not left to themselves but became victims of aggression and subjugation by the so-called developed countries. The economies of these countries were systematically destroyed, their natural resources plundered, their productive systems and skills undermined, their flourishing trade choked, their surplus food-producing agriculture turned into commercial plantation agriculture for the profit of the aggressor countries. Systematic plunder of the rest of the world mainly through superior military strength and to a lesser extent through technology, which itself was a factor in superior military strength, led to the affluence of the handful of imperial countries and the affluence, in turn, increased their technological and military strength. In the New World, a vast continent, or rather two continents, were appropriated to themselves by these conquerors, the indigenous populations there were virtually exterminated. What little of these survived were driven to lead a marginalised existence. The few who attained the status of masters of that continent laid the foundation of their own affluence and development by capturing human beings in Africa and making them work as slaves in the New World.

The consequences of the prevailing developmental model are becoming increasingly evident globally, even in the developed world, over the past two decades and more. Economic growth in the industrial countries has slowed down greatly, unemployment remains stubbornly at high levels, real incomes of working people are falling and industrial countries are increasingly resorting to restrictive trade practices in violation of the spirit of the much vaunted recent global trade agreement. The gap between the industrial and most of the developing countries is getting wider. Finance capital controlled by a handful of banks in the industrial countries has come to dominate the global economy. Speculation in currencies has become the dominant economic activity far outstripping the global output of goods and services. Ratio of foreign exchange transactions to the volume of world trade in goods and services has jumped from 10:1 in 1983 to 60:1 in 1993. Currency turnover in the international market is rising fast. At $1.3 trillion a day, it is by far the largest market in the world. World GDP is of the order of $25 trillion per year.

Within the industrial countries, the rich-poor divide is becoming sharper, the US being the most unequal country in the world. Tensions among the industrial countries are becoming more intense. There is a heavy and increasing flow of capital resources from the poor countries to the rich while the poor sink deeper and deeper in debt.

Technology as Ideology

Technology today has come to be raised to the status of an ideology. According to this ideology, technology is in itself benign. All problems of humanity can be solved through technology and without it no society can progress or develop. The newer a technology, the better it must be. Further, we are also told that the global sweep of technology is inexorable, unstoppable. The votaries of technology believe that anything that can be made must be made with technology. Thus raised to an 'ideology', critical examination of its negative aspects and objective evaluation or any discrimination among different technologies, their relevance to specific problems and socio-economic conditions become difficult. Perfectly serviceable productive systems and equipment are rendered obsolete through the arrival of newer technologies and this process is viewed as 'creative destruction' although in reality it is creative for a few, destructive for many.

There is no doubt that technology has increased the power of the human body and mind to an incredible extent. It has also created new materials, products and services, several of which have the potential of making human life longer, happier and more fulfilling. But the role of technology in human history has not always been benign; it has been equally destructive even for the industrial countries. For the rest of the world, technology has been largely a destructive power in the hands of the dominant countries leading to conquest and enslavement of a large part of the world, ruthless exploitation and even destruction of their natural resources and impoverishment of their peoples. Historically, the most powerful thrust of technology has been in military applications. In that field, technology has given to the only surviving superpower the opportunity to dominate the whole of the rest of the world. The awesome destructive power of present-day military technology as well as its ruthless use was demonstrated not so long ago in the Gulf war.

Technology is not value-free nor neutral to the socio-economy structures in which it operates. It inevitably leads to the strengthening and enrichment of the social segments that are already strong and rich and to increasing exploitation and marginalisation of those who are poor and powerless. This happens both within and across countries. It also has the effect of tearing apart the fabric of societies. The rich, powerful and technologically dominant section of the societies in different countries, both developed and developing, becomes a single, distinct global segment acting together to their mutual profit and moving further and further away not only economically but also socially, culturally, intellectually and ideologically from the rest of their own societies. This fragmentation is particularly conspicuous in the developing countries in which the life-styles and life-expectations, dress, language, education, recreation and communications of the elites are closer to those of the elites the world over than to those of other segments of their own societies. Indeed, the life-expectation of the sons and daughters of the elites is to leave their own societies and become part of the industrialised societies.

We have only recently begun to realise that the present mode of development is causing widespread and grave damage to the environment and to the entire ecosystem of the planet. Pollution of air, water-streams and even of the seas and destruction of forests and of the diverse species of flora and

fauna therein and of the habitats of large masses of people are rampant. Bloated metropolises in which the majority of the people live in slums without elementary civic services, beef contaminated with the mad cow disease because cattle who evolved in nature as herbivores are fattened on cattle-feed processed from the remains of sheep and other animals slaughtered in abattoirs, damage to the ozone layer, global warming, etc, are diverse instances of the consequences of the present mode of development. Many more can be cited. Some noises are being made lately here and there about these dangers. Development, however, rushes headlong without really bothering about the trail of destruction it leaves behind so long as the market yields profits.

Social Costs

The social consequences of this so-called development are no less grave. Vast segments of our population have been entirely left out of this development. Worse still, hundreds of millions of the poorest and most downtrodden of our citizens are being forced to pay the cost of this development through ejection from their homes and lands, deprivation of the resources of their livelihood such as land, water, jungles, fisheries, etc, spreading unemployment among organised industries and marginalisation of small artisans and craftsmen. Even the most rudimentary education and health services are unavailable to tens of millions. Hundreds of thousands of villages continue to go without safe drinking water and their number rises every year while tens of billions of rupees are spent on mega-projects of dams and irrigation. At the other end, a small segment of the society which is the main beneficiary of this development amasses vast wealth and political power and indulges in obscene conspicuous consumption. Our industrialists are happily hitching themselves to the apron-strings of multinational corporations in the hope of reaping large and quick profits with little risk while the country as a whole sinks deeper in the internal and external debt trap.

Blind pursuit of wealth, profits and the goodies of life has spawned crime, drug smuggling and addiction, gang wars, land grabs, extortion, kidnapping and abduction, large and mega scams of all kinds, corruption at the highest levels and rampant crimes against women. Strident, vulgar advertising creates market demand for ever new products of questionable value, if they are not actually harmful. Beauty of women and talent of sportsmen have become grist to the mills of profits through high pressure advertising. Child prostitution and sex tourism get acceptance as a part of this development process.

Life for citizens, even the relatively well-off ones, is becoming increasingly insecure, especially due to the nexus between criminals and powerful politicians. The state purports to counter this insecurity by making greater use of the police, who often actually use their powers more against common, peaceful, law-abiding citizens than against organised crime sheltered by politicians. Before our very eyes, we are gradually becoming a police state.

It is important to realise that what is happening is not due to the avarice or wickedness or perversity of some individuals. Tensions generated by the ever widening chasm between the rich and powerful few and the impoverished, exploited and oppressed many and a blind scramble for wealth and power can have no other consequences, as is being seen even in the developed world.

A key element in the present developmental ideology is reliance on a free global market. By permitting free competition on a global scale by profit-seeking producers to satisfy the demand for goods and services it is believed that optimum economic outcomes in terms of efficient resource allocation, production, distribution and rapid economic growth follow. If in the process, the strong drive the weak out of competition, needless and even harmful products are thrust upon consumers through high pressure advertisements and the whole productive system gets skewed in favour of the rich and the needs of the poor get ignored as they lack purchasing power in the market, as is in fact happening in our society today, we are glibly assured that these negative effects of the market will be only short-lived. Rapid growth, we are told, will automatically bring prosperity even to those who are poor today.

Without going into a full discussion of the merits and demerits of a free global market as the engine of development, it needs to be recognised that conceding supremacy to the free market in economic affairs makes the very concept of a society's development strategy meaningless. For, development or lack of it then becomes the outcome of the interplay of market forces, too complex, imponderable and unpredictable to be brought within a policy frame. What is produced, how, how much and for whom and sold at what price, all gets determined by free competition in the market and by comparative profitability. Investment also follows the signals put out by the market. Welfare, social justice and environmental conservation can be meaningfully pursued only to the extent a society has the will and the strength to curb and regulate the market. Thus even at a conceptual level dependence on a free global market does not appear consistent with any definite strategy even for economic development, much less so for development in the full sense of the term.

This so-called development is nihilistic. Not founded on any basic human and social values, it has degenerated into blind, ruthless pursuit of wealth, power, pomp and pleasure by every individual who has the means and opportunity to engage in such pursuit. For the vast mass of humanity who do not have such means and power, expropriation, oppression, ignorance and disease is the lot.

Alternative Paradigm: Values and Goals

Genuine development must be, above all, human development. The development of all human beings in the society must be its central concern. This development must be not only economic but also of the total personality: social, psychological, spiritual. It should provide opportunity to every human being to grow to the highest stature his innate personal endowment will enable him to. And such developmental opportunities and resources must be ensured not only to the present generation but to the generations to come. That is to say, genuine development must be sustainable.

Such development cannot be left to the mercies of those who control and manipulate the invisible hand of a free global market. Nor will it flow automatically from some allegedly inexorable processes like globalisation, private enterprise or high technology. It will need to be firmly rooted in a set of basic values, human and social. Only such values will guide the society in the identification of right goals and objectives and give right direction to its endeavours.

One does not have to look far to discover these values: they have been staring us in the face all along. We routinely, ritually swear by them all the time. Truth, peace, compassion, non-violence, freedom, equality, harmony with nature and with other living beings, self-reliance, dignity of labour: these are the values development must be based on. I do not think any elaborate argument is needed to justify these values; they are self-evident. A society that disregards these values cannot develop as a really free, just, peaceful, happy, creative, stable society.

To fully live up to these values in all our actual actions in the existing society may be difficult because of our own weaknesses and imperfections. Occasions will arise when circumstances beyond our control make it unavoidable to knowingly deviate from the path dictated by these values. Sometimes it may be that some among these values may appear to run counter to one another so far as the actual course of action is concerned. Such contingencies must however be recognised as aberrations and compromises, not as negation of the values themselves. Our endeavour both in individual actions and in social efforts must ever be to internalise these values and continuously seek to live by them.

The goals, objectives, processes and policies of genuine development should flow naturally from the set of basic values that the society accepts. They must be truthful and transparent and all must know what is being contemplated or done in the name of development, and why. Equally importantly, development should consciously endeavour

to create conditions in society in which untruth, deviousness and subterfuge will not need to be resorted to by the state in relation to its citizens, by one class or section of the society in relation to another, by one country against another or by one citizen against others. Truth and transparency must be the prime characteristics of genuine development.

Poverty Eradication and Equality

Full development of an individual is not possible so long as he lives in dire poverty and his basic needs are not met. Poverty eradication must, thus, be a principal goal of development. Poverty can be eradicated only by producing in sufficient quantity the goods and services to satisfy the basic needs of all people. These must obviously include food, clothing, shelter, health, education and a modest level of essential comforts. Further, the goods and services produced must reach the people.

The goal of development must also include making available to the people increasing quantities and variety of goods and services to enrich their lives physically, intellectually and culturally. In other words, development should not mean only providing subsistence to people but should provide rising standards and quality of life for all. At the same time, spending social resources in producing ever new, unnecessary and even harmful things and artificially creating demand for them through loud and misleading advertisements, thereby promoting mindless consumerism for making quick profits, can have no place in the objectives of genuine development.

In a poor country like ours, the basic needs of all people cannot be satisfied while a small segment of the society has opportunities of making vast fortunes and appropriating to itself, often by unlawful and dishonest and even violent methods, a disproportionately large part of the social product. Its consumption and the means which enable it to indulge in such consumption will need to be severely restrained. This segment of society will, no doubt, raise the cry that we are distributing poverty. But as Gandhi said long ago, the earth can provide enough for everybody's needs but not for everybody's greed.

There are some who argue that nature itself does not favour complete equality. This argument is specious. The present inequality in society is not the result of natural causes but is patently caused by manmade inequities. These inequalities can be mitigated to a great extent by human will and effort. Any residual inequalities resulting from differences in the inherent talents and capabilities of individual men and women can never be as glaring as at present nor can they be permitted to become the means of oppression and exploitation of the many by a few.

Inequalities of income arise mainly from inequalities in the ownership of assets: land, capital, education, health, caste, gender and so on. To promote equality in society, the present grossly unequal ownership of economic assets will have to be remedied. Similarly, the handicaps imposed upon many due to lack of access to education or health services will have to be removed. Social inequalities arising from caste and gender are also a serious challenge in the pursuit of equality which will need to be purposefully met.

In a society as unequal as ours, mere formal equality will, in fact, further harden the present inequalities. Genuine equality can be promoted only if those who are weak, oppressed and exploited today are actively helped and supported to become strong.

An important goal of development must be to provide the maximum degree of freedom to all citizens. This requires that freedom from want and freedom of conscience, expression, association, movement and peaceful protest in pursuit of one's legitimate interests must be ensured for all citizens subject only to the condition that one person's exercise of his freedom shall not encroach upon another person's legitimate freedom nor do palpable and grave harm to the society as a whole.

Development of our conception must aim not only at protecting the environment but also nourishing it and promoting respect for nature and other living beings as rightful co-tenants of our planet. Humanity must achieve its development not in competition or conflict with nature but in harmony with it.

Humanity in its drive to secure more and more of everything for itself has drawn recklessly on natural resources like land, water, forests, minerals, animals and other precious resources and polluted where it has not depleted these resources to a point where the very survival of life itself on our planet has become problematic. Such destructive development cannot be sustainable. That is to say, it cannot ensure that the generations to come will find at the least, the same quantity and quality of productive resources as our generation did.

Self-Reliance

Development to be really oriented to the satisfaction of the genuine needs of our people at large must be self-reliant and carried on with the full and creative participation of the people themselves. Dependence on external aid and agencies undermines our confidence in ourselves, pre-empts the growth of our capabilities and dulls the edge of our own efforts. Such external aid never comes without strings of some kind and there is very real danger of such dependent development, if it takes place at all, pushing us under the tutelage of external forces, be they other countries, international financial institutions, trade bodies or multinational corporations.

Growth of production of goods and services must be achieved self-reliantly making the best possible use of resources available to us internally. We must learn to do without things for which we have to depend upon other countries, except under some really compelling circumstances. Especially for the basic needs of the mass of our people such as food, shelter, clothing, reasonable health and educational services, etc, our self-reliance must be absolute. Fortunately, the country has all the resources really needed for the purpose of such self-reliance.

This is not to say that India should cut itself off from international trade. There will be a few things we need and cannot produce ourselves. There will also be some products in which we have a comparative advantage and other products in which some other countries have similar comparative advantage. Hence, some international trade will not only be unavoidable but also desirable. But self-reliance will demand that we import only as much as we can pay for through our exports. Becoming dependent on ever increasing imports and therefore making exports an overarching imperative to the virtual exclusion of the needs of our own people cannot be permitted in the alternative development model.

Genuine development must aim at promoting due recognition of the dignity of labour. Work, both mental and physical, is essential for the proper development of personality and talents of an individual in the full sense of the term. Work must also be viewed as an important activity for promoting equality in society. An able-bodied person who does not work must be recognised as a parasite. Conditions which permit such parasites to amass wealth and command respect and power are wholly inconsistent with genuine development.

Dignity of labour can have some meaning only when the society provides opportunity for every individual to perform socially useful work and rewards such work at its intrinsic value to the society, not on some caste or class based traditional ideas of what is higher or lower work. The prevailing reward structure for work will need to be overhauled drastically if dignity of labour is to be a reality and not mere rhetoric.

Is a developmental paradigm based on the values and goals outlined by me so far a mere fantasy, an impractical utopia? Worse still, is it reactionary, antediluvian? Most people among that class which is the principal beneficiary of the prevailing model of development will, no doubt, say so. Also those strongly influenced by the mass media controlled and exploited by the same class to further its own interests will also be induced into thinking so. But for a large majority of our people who bear the cost of the present development, but obtain little benefit from it, an alternative path will be the only hope.

The question whether an alternative model on the lines outlined by me is feasible or not may not however be dismissed so summarily. We shall, therefore, try to take a closer look

at some important aspects of development from the viewpoint of feasibility of the redefined model. It is obviously not possible to draw here a complete blueprint of an alternative development plan. We may however, examine its implications for some important fields like agriculture, industry, energy, capital, the market and so on. We shall also need to see what role the state will have to play in this model.

Issues in Agriculture

Agricultural land in our country, as is well known, is extremely unequally distributed. Marginal holdings which constitute about 59 per cent of all holdings, operate a mere 14.9 per cent of the land while 9.2 per cent of the holdings which are medium and large operate as much as 44.6 per cent of the land. The number of landless labour working in agriculture was 7.5 crore in 1991 and is continuously rising. This kind of distribution not only violates all norms of equality and equity but is also a serious obstacle in development as a whole. By keeping a large proportion of our population at or below the level of subsistence, it pre-empts the emergence of a mass market for other kinds of goods and services. It is usually forgotten that South Korea, whose model we are exhorted to emulate, started after the second world war with a more or less equal redistribution of land. In contrast, land reform legislation intended to bring about a more equitable land distribution was never enforced purposefully in our country and since 1991 commercialisation of agriculture and inviting large companies including multinationals into this field is being favoured. More equitable redistribution of land, however, is not only an equity imperative but also a developmental imperative.

Experience of the past half century has clearly demonstrated that large dams and irrigation projects are not an answer to the crucial challenge of making water available for agriculture. An investment of Rs 11,107 crore on such schemes during the Seventh Plan has, according to the ministry of water resources, not only not resulted in the creation of any additional potential, but has resulted in the loss of 0.6 million hectares out of the potential that existed at the end of the Sixth Plan. In the minor and medium sector, the potential created between 1950 and 1990 was 20.2 million hectares out of which, according to the ministry's own claim, only 15.8 million hectares had been utilised. According to land-use statistics which are much more credible, the unutilised gap in 1990 was 9 million hectares, nearly 44 per cent of the potential.

It is now widely recognised that small irrigation projects, watershed development, rainwater harvesting and such other methods are far more efficient and cost-effective ways of ensuring water for agriculture. They do not inundate large agricultural and forest lands, cause little soil erosion, do not displace lakhs of tribals and other poor from their homes, discourage wasteful use of water, provide work for large numbers of people, place irrigation within the initiative and control of the farmers themselves than of the bureaucrats and are not ecologically damaging. Storing water by recharging the underground aquifers also prevents loss through evaporation.

An equally important issue is the use of modern technology in agriculture. It is now being realised that excessive use of chemical fertilisers, pesticides and water is causing salination and waterlogging of farm-lands in many parts of the country, not to mention the huge subsidies they involve. Use of farm machinery is displacing labour from agriculture. Devices like drip irrigation can be availed of only by the relatively large, affluent farmers. It has been demonstrated that generous use of biomass for soil conditioning, need-based use of water, organic manures and pesticides and such other inputs can ensure reasonable levels of land yields. Conservation of genetic diversity in which we are so well endowed is also an important objective which natural farming can serve.

The alternative development paradigm will also prevent diversion of cereal lands to horticulture, floriculture, fruit growing and, most outrageous of all, to prawn ponds, all intended to yield profits for a few at the cost of expropriation of the many.

Industrial Development

In the field of industry, the questions that must be asked are: What will industry produce and for whom? What methods and technology should be used for production? Who should own industry? How will the inputs needed for production such as capital, raw materials, energy, etc, be found? And so on.

Ours is an extremely unequal society. So the question what will industry produce becomes crucial. Our answer to this question must be: priority must go to producing goods and services really needed to satisfy the needs of the broad masses of our people, not to cater to the demands of the relatively affluent few. The production systems and technology must be such as will not demand huge investment of capital and will provide gainful work for increasing numbers of our people. For, if people do not find work and earn income, goods and services produced for them will not find a market. Hence, in the alternative model, industry must integrate within itself both these concerns: satisfying needs of common people and generating as much employment as possible. All other aspects of industrial policy will have to be built around this principle.

Today, production and employment are bifurcated. What is produced is determined by the market. Production is sought to be achieved through modern, centralised, capital-intensive, high technology systems which generate little employment. Employment is sought to be generated through sundry rozgar yojanas whose productive value is doubtful. Ideally, the development process should itself generate production as well as jobs as two sides of the same coin, not as two distinct objectives to be pursued through different systems without any relation to each other.

Integrating production and employment and orienting it to the real needs of the people at large means that our productive system as a whole must be labour-intensive, small or medium scale and at a modest level of technology. Such a productive system also lends itself readily to decentralisation.

This, of course, does not mean that all industries in the country will produce only for the immediate and direct consumption of common people. Production of such goods will itself need several different kinds of materials, machines, tools and energy. Industries to produce these capital goods and other inputs will be needed. But even in the establishment of these capital goods industries, the overarching considerations must be: what will be the ultimate consumer-end product and for whom, and will the capital goods industry generate jobs commensurate with the investment and output?

While operationalising the central principle of integration of production and employment, certain overriding needs of the society will have to be borne in mind. Some compromises will have to be made. But while making such compromises the essential nature and priority of such needs must be assessed with a proper sense of priorities and proportion. For instance, exports are currently viewed as an overriding national imperative. We need, no doubt, to import certain goods and foreign currency needed to pay for them has to be earned through exports. But we must examine how much of the present large and increasing imports are really necessary to meet the essential needs of our people. Import needs for this are not all that large and our traditional industries which, in any case, are our major foreign exchange earners have the capacity to earn enough to pay for such essential imports. The so-called modern industries like chemicals, electronics, engineering, etc, do not earn enough foreign exchange to pay even for their own imports. Their growth is one important reason for the unbridled growth of our imports.

The foreign exchange outgo on petroleum products came into the limelight recently. Actually, our own past policy of permitting unrestrained expansion of the automobile industry has been responsible in no small measure for that crisis.

Defence of the country requires import of a large variety of arms and equipment. It cannot be denied that in the present security

environment around our country security requirements cannot be ignored. But it is equally true that acquiring ever larger quantities of weapons does not necessarily enhance security; it merely leads to an arms race. Hence determined political efforts to relieve the security threats and at the same time to attain maximum possible self-reliance in military production need to be pursued to keep defence imports at a reasonable level.

The alternative development concept will, thus, not view exports as a holy cow. The effort will be to restrict imports to limits which our normal exports can sustain.

Technology is another holy cow in the present developmental discourse. I have already discussed it at some length earlier. If our production system is predominantly small- and medium-scale, decentralised and labour-intensive, its technology needs will be determined by this structure and will be well within our existing capabilities. Further development of technologies needed for improving such productive systems must and can be achieved. Such an effort, however, will aim not at labour saving but at higher all round productivity and self-reliance. It is worth remembering in this context that small industries already produce some 40 per cent of our total industrial output. Their share in total industrial exports is also about the same. Further, they have consistently maintained a significantly higher rate of growth of output compared with medium and large industries and that with little or no active support from the government. They provide employment to some 1.4 crore workers which is far greater than the employment in the large and medium industries The total investment in this sector is also only a fraction of that in the organised sector

Financial vs Human Capital

The present pattern of development creates ever increasing demand for energy. That energy has to be generated at exorbitant cost in capital and environmental pollution. A small-scale, simple technology, decentralised, labour-intensive productive system will drastically reduce the need for commercial energy and will also reduce the load on transport which is a significant consumer of energy. By proper cultivation of bio-fuels and their efficient use in the several models of smokeless 'choolhas' which are already developed, the domestic needs of energy especially in the rural areas, which are not very large in any case, can be met. Such commercial energy as will still be needed can be obtained by more efficient generation, transmission and utilisation of electricity and, more importantly, by purposeful development of renewable, non-conventional energy sources like the sun, wind, water, animals and biomass.

We are constantly told that our country is short of capital and must, therefore, depend upon foreign capital with all the strings that are attached to it. But this is the result of our opting for a highly capital-intensive productive system with the capital needed per unit of output going up continuously. This productive system is simply not viable or sustainable for a country like ours, perhaps for any country. The alternative labour-intensive system will make the goal of self-reliance in capital eminently attainable.

The science of economics recognises the importance of human capital. To a considerable extent, monetary capital and human capital are interchangeable. The mode of development set off by the industrial revolution continuously substitutes monetary capital for human capital through the adoption of ever new labour-saving technologies. But this process is not inexorable nor irreversible if there is the will to bring about a change. In the alternative development model, this process of labour-saving capital intensification will need to be firmly discouraged.

It may be argued that mere numbers do not constitute human capital. It is the knowledge and skills acquired by persons that turns into human capital. This is, no doubt, true. But it is equally true that artisans and craftsmen in our country do possess a store of knowledge and skills which are not to be scoffed at. These can be further enhanced and diversified by proper training and more people can be so trained. Our stock of human capital can thus be augmented and upgraded continuously at a cost which will be a fraction of that incurred in importing the latest technology and capital equipment.

All capital should be viewed as ultimately belonging to the society. Individual ownership of capital should not be allowed beyond a limit commensurate with the level of our economy as a whole. Deployment of all capital should follow priorities set down for the purpose by the society and not purely the market signals so that production to meet the real needs of the mass of people is ensured.

Thus, by opting for small-scale, labour-intensive, moderate technology, decentralised mode for industry and producing for the needs of the mass of our people we shall be able to integrate production and employment, greatly reduce the need for large imports and for scarce inputs like capital, energy, transport and high technology. Such a system will also stimulate growth by redistributing incomes through broad-based employment generation.

Roles of Market and State

What will be the place of the market in the developmental paradigm sketched here? Will it amount to adoption of a 'command economy' dominated by controls, licences and quotas? It should be clear that a small-scale, labour-intensive, decentralised model of production for the people cannot, by its very nature, be a command economy model. Even such a system can, no doubt, be hamstrung and distorted by an overbearing bureaucracy or by self-seeking politicians in power. This will need to be guarded against by vesting in the people themselves the function of planning investment, production, distribution, infrastructure development and so on. Unrestrained access to information about whatever is being done in their area in the name of development must also be guaranteed to people to enable them to keep a direct and continuous check on excessive bureaucratisation, corruption and ecological damage or loss of natural resources. An open market will clearly be a part of such a system.

But a free global market of the kind favoured by the so-called mainstream economics of the day will not allow the kind of development we are talking about. International finance capital, MNCs and their Indian surrogates, stock market racketeers, smugglers and such others will hold our economy to ransom and exploit our people and resources for their own enrichment. That kind of a free market is, in fact, not free at all, and will need to be firmly regulated.

The State

What will be the role of the state in this kind of developmental paradigm? The affluent classes, the elites or the creamy layer of today, which may include the upper middle class and even a part of the industrial working class, who have enjoyed the benefits of the present development, will strongly oppose the dismantling of this model in favour of a redefined one. This class has power, money and international bodies like the World Bank, IMF and the World Trade Organisation on its side. Any drastic change from the present model will not be a painless process. The primary sanction behind such a change will obviously have to be the people's will. But that alone will not be enough. When the chips are really down, the state will have a decisive political and economic role to play. The state alone can effectively overcome the opposition of those who have a vested interest in the present order of things, and can facilitate an orderly change to the new order. In the redefined model, planning and the 'commanding heights' concept, no matter how hackneyed it may be made to sound today, will be crucial. As such, in the redefined developmental paradigm the state will have a decisive role to play, but it will need to have the sanction of the people's will behind it.

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Development! Just Going Round in Circles?

Sunil Ray

Reviving a Rural Industry – Silk Producers and Officials in India and Bangladesh, 1880s to 1980s by William Van Schendel; University Press, Dhaka University, Dhaka, 1995; pp 249, Tk 275.

HISTORICALLY speaking, the state as an agency of development has perceived its role necessarily at the behest of politics of power, ever since it emerged as an institution. Any political formation in power that would like to make a niche for itself in a state-supported development programme has to be compatible with its bureaucracy. Some call this phenomenon 'politics of survival'. This politics of survival, depending on authoritarianism and bureaucracy, has a tendency to increase its hold over society, which is ostensibly non-political. In Lesotho, in Africa, the 'development industry', is closely involved with the state bureaucracy, a machine for reinforcing and expanding the exercise of bureaucratic state power and, hence, has failed to eliminate poverty. Poverty was the point of entry of the state bureaucracy to launch an intervention that finally yielded no desirable impact [Ferguson 1990].

Rural industrialisation is one such development programme of the third world countries, which is taken up by the state when its survival is threatened, especially when these countries are under 'structural adjustment programme'. The programme is then projected as a major source of generation of employment and income for the unemployed and the underemployed in the countryside. Its potential as a means of employment and income generation in rural areas is high. But, the state, willy-nilly, remains oblivious of the material conditions, and the conflicts and tensions engendered when the country passes through the process of inter-action with international monopoly capital.

The state hardly pays heed to the historicity of social formation, embedded in the sociology of rural entrepreneurs of 'Darwinian varieties'.[1] In the process of interaction of the social formation of those Darwinian varieties with the development programmes of the government, carried out with a 'top-down' approach, the household mode of production is weakened, but not destroyed. As a result, rural industrialisation of all the states in the third world is trapped in the same cycle of reproduction and gains legitimacy by and through its logic. Techno-organisationally, rural industry remains a segmented part of production. In the context of increasing commodification, the gulf between the spirit of the programme as conceived, and the rhythm of the changing socio-economic relations is noticeably large. The more authoritarian the state, the wider is this gulf.

The book under review exposes the limitations of the state being a development agent, dispels bureaucratic incapacity and analyses the development game plan of the state while playing politics of survival. The author has taken silk industry as a case and analysed silk production between the 1880s and the 1980s, in a silk region of central Bengal, now divided between India and Bangladesh. The book runs into eleven chapters, in three parts.

In Part I, the author has traced the historical forces and shown how the once growing silk industry of Bengal was forced into the process of marginalisation by the colonial powers. He has also drawn a parallel between the attitude of the government during the post-colonial period and that of the colonial government towards the development of the industry. Part II, subtitled 'A view from the below', explores the areas of conflict and convergence of social formation the silk industry is embedded in, in the context of changing social and economic circumstances. Part III captures the missing links in the so-called development process.

While outlining the conceptual framework of the study, the author goes deep into the historical background of silk production in the region. What is revealing is that the position of Bengal, which at one time was a pre-eminent silk exporter of south Asia, has slided down today so much that it is a mere shadow of its former self. The market conditions changed owing to the expansion of capitalism into world economy. This led to the emergence of a unified market for silk. The development of technologically sophisticated silk industries in western Europe during the 18th century, turned Bengal into a raw silk exporter from an exporter of silk textiles. Silk filatures, in which silk is machine-reeled, were installed in order to cater to the emerging demand. Gradually, and steadily, Bengal turned into an exporter of raw silk. Resultantly, the agro-industrial linkages, which formed a natural integration between mulberry cultivation, raw silk production, and weaving at the household level, was severed.

With the advent of international capitalism, silk processing was restructured; but, silk production was left unstructured with the traditional households with abundant cheap labour. Textile production was taken over by the highly capital-intensive industry in Europe. The link with international capitalism buttressed home-based production and obstructed other forms of production such as that among the silk-producing peasants in Bengal to expand. Sen's thesis makes a similar observation, though in the wider politico-historical context of colonial India. He observes that colonial penetration into undivided India arrested the evolutionary process of the then existing forms of production, which were growing on their own. Before the process could take off, British capital stepped in [Sen 1982].

The collapse of the Bengal silk industry being an outcome of international capitalism, historically speaking, is indisputable. But, what is worse is the policy-makers in the post-colonial era re-inventing the importance of agriculture-based rural industrialisation such as the silk industry as a means to reduce the incidence of under-employment and unemployment in rural India. Such a blunder on the part of the policy-makers continues because, as the author points out, policies in the post-colonial period are formulated in the light of the management ethos of the colonial government. For instance, policies are geared to boosting cocoon production, improving silk quality, prevention of losses resulting from silk worm diseases, etc. These, no doubt, are important. But, while formulating policies, one has to bear in mind the ground realities in which silk production is taken up, and the changes undergone over the years. For instance, the conditions under which rural households shift family labour and resources from agriculture to industry, and vice versa as well as the relative opportunity cost of labour or resources in silk as compared to other activities affecting long-term social and demographic changes, today are different from what they were during the pre-colonial period.

The bureaucratic approach of the government belittling social processes in its policies in the context of silk and silk products in Bengal is similar to the improvement of wool production in the state of Rajasthan. The government of Rajasthan has been trying to improve production of wool as well as its quality by means of incorporating exotic breeds into the native sheep breeds through its hybridisation programme. The story is in

no way different from that of the silk bureaucracy. It is 'typically' a management-oriented programme, divorced from social processes. As a result, notwithstanding the continued efforts made by the government for more than two decades, the programme still remains peripheral to the rearers' economy [Ray 1995].

On the question of Bengal being turned into an exporters of raw silk instead of finished products, the author has left a few questions unanswered. It is true that home-based activities were victims of the onslaught of international monopoly capital; but then, raw silk processing (filature) was left by the East India Company to the private sector. It was done at a time when Japan entered the international market with improved technologies Why did the private sector in the silk industry of Bengal fail to reap the benefits of competition through improving its technologies? The government's apathy towards the development of the silk industry is said to be the reason for this. However, when Japan went in for restructuring its domestic silk production and setting up a strict quality control mechanism to take full advantage of the collapse of European sericulture during that time, why did the private entrepreneurs of Bengal fail to do the same? How did the apathetic attitude of the colonial government serve its interests? The author has not probed these issues.

Even in the post-colonial period, Bengal sericulture has failed to learn from the other parts of the country like Karnataka, Tamil Nadu, etc. Chapter III shows how government intervention in the exploitative marketing network, and its restructuring have boosted silk industry in Karnataka. The traditional marketing network dominated by the middleman has been replaced by an organised marketing system, in which grading, sorting, etc, have been introduced. The middleman has virtually been eliminated.

In Bengal, marketing of cocoons and raw silk continues to be a serious bottleneck. Co-operatives were formed without lasting success, and, more importantly, no attempt has been made yet to weed out the middleman. Merchant capital continues to exercise control over production, marketing, pricing, etc. Through a system of intermediaries, the merchants corner maximum benefits of the trade. Whatever is finally left to the actual producers, is used for perpetuation of the activities, but without prosperity [Ray 1995]. The author shows how higher prices accrue to the producers wherever the government has set up a parallel marketing network, as in the case of the regulated cocoon market in Karnataka. In Bengal, no concerted efforts have been made to eliminate middlemen, and bureaucratic and technocratic approaches continue to be followed towards the development of sericulture.

The story of Bangladesh is in no way different from that of Bengal. The new nation faced severe scarcity of skilled silk labour due to migration of rearers, reelers, and weavers who happened to be Hindus, to West Bengal. Besides, foreign funds which Bangladesh received liberally to develop sericulture, were spent on the expansion of the bureaucracy. NGOs do not seem to have brought about any perceptible change in sericulture.

The bureaucratic 'putting out' system was introduced in Bangladesh. Silk producers would collect silk worm eggs (seeds) from the Bangladesh Sericulture Board (BSB), and sell the cocoons to the Rajshahi Silk Factory, whose viability has been ensured mainly through subsidy. The seeds, of course, are of good quality, but the returns to the rearers is low. More significantly, there is no economic freedom for the silk producers. However, producers in Bengal carry out silk-related activities within a system of petty commodity production. Trade is regulated by private traders in an imperfect market; cocoon dealers and silk reelers collude to keep cocoon prices low. In this case too, rearers do not enjoy economic freedom. However, their position, relatively speaking, is not, as the author argues, as bad as that of their counterparts in Bangladesh. The rate of return for the cocoon producers is higher, and the economic freedom enjoyed by them is relatively more. But, the aggregate benefits that accrue to them get wiped out eventually due to the harsh economic environment.

The state has a few lessons to draw from both the situations. The state should break the exploitative system which merchant capital has set up to perpetuate its commanding position in the sphere of exchange. It also should minimise bureaucratic control. Evidence suggests that petty commodity production can progress through the process of capital accumulation [Ray 1991], provided it operates in a competitive situation that does not allow the prevalence of the putting out or the intermediary system.

In the Mexican context, it was observed that proliferation of labour-intensive petty commodity production took place along with growing capital intensification [Cook 1984]. However, in a situation where production relations are typified by Bhaduri's land-tenant relationship [Bhaduri 1973], or Ray's middleman-merchant and wool producers relationship [Ray 1995], tenants or wool producers will never be allowed to earn more than what is required for their bare subsistence. The production relation of the silk weavers who are working in the 'putting out' network [Banerjee 1995] do not seem to be different.

The basic problem, as the author has explained in Chapter 7, is that the production relation continues to exist on both sides of the 'Padda' (river 'Padma') without any transformation. The community production continues to be 'familised' in that silk production neither provides a spring-board for further rural industrialisation, nor has declined to that of rural proletariat. The condition of many artisan-based industries in the rural areas is similar to that of silk production. The law of their reproduction is 'involutionary commercialisation' that increases employment without adding to productivity and income. This involutionary commercialisation is continuously supported by 'familisation' of the household mode of production. The gender, kinship and demographic changes take place at the household level in response to the commercialisation or changing market conditions.

Farmers adopt different strategies to cope with the market conditions, depending upon their command over resources such as land, capital, water, etc. The most rewarding strategy for the farmers has been cultivation of labour-intensive cash crops. However, only those who have good quality land and initial capital can respond to market demand for agricultural produce. The production strategy for the other group of farmers, who are small and marginal, has been to complement agriculture with non-agricultural production or trade. These have very little command over the resources, but have full command over their inherited skills, which they use as their main resource while adopting production strategies for silk production. The division of household labour between agriculture and silk production in such cases is determined by the relative opportunity cost of various agricultural and non-agricultural activities. A third production strategy is followed by those who have command over neither resources nor skill. They are domestic or agricultural labourers, and respond to the changing conditions of the labour market.

The 'internal' need to reproduce rural household enterprises in the commodity production system being dependent upon household labour is increasingly being realised by the petty producers. This internal factor, accompanied by external factors such as improving health services, lower mortality rate, etc, has led to population increase at a remarkable pace. The incidence of population increase is relatively higher in the case of the rural household enterprises, and has significantly contributed to petty commodity production. It is true that production has steadily expanded; but, such expansion, as mentioned earlier, is involutionary. The population increase among rural producers being locked into familised commodity production, has led to involutionary growth.

As a result, poverty has worsened, vulnerability has grown and social inequality has deepened.

The author has raised a fundamental issue at the end of the book on the relevance of the state to development, which has been debated at length [Banerjee 1995]. As the author observes, the state, as an institution, is increasingly coming under attack since its coherence and accountability have diminished due to the involvement of political leaders in the 'politics of survival'.

> Development programmes are crucial pawans in power struggles within the state organisation: state institutions parade their programmes in order to demonstrate how indispensable they are, how well they function as career machines, and how essential it is for them to expand further. This jockeying for position within the state is all the more important when state leaders, involved in their own 'politics of survival' diminish the coherence and accountability of the state and its agencies in order to safeguard their personal political survival, which often takes precedence over efficient administration (p 217).

A 'new' paradigm of development economics based on local organisations and institutions is gradually emerging and assuming greater significance in the development discourse [Nugent 1993; De Janvry et al 1993; Thorbeck 1993; Uphoff 1993]. However, they could be significant in the development discourse only when they make themselves accountable to the people they work for.

Although they are committed to the demolition of authoritarian developmentism, their initial enthusiasm fades when they are caught up in what is called an 'environment of conflicts'. In such a situation, when institutions like NGOs receive development aid from foreign countries, they seem to be more accountable to the bureaucracy of their own organisations than to the people. NGOs engaged in the task of developing sericulture could not do much with the development aid received from foreign countries. On the contrary, such aid, as the author explains, has escalated a new power struggle between the state and NGOs in an attempt to establish control over such 'environment of conflict'. However, the concept of 'environment of conflict' needs further elaboration in the present context. Its implications to politics of development might provide insights into the ongoing development discourse.

Whether the state or the local institutions such as NGOs could eventually establish control over such 'environment of conflict' is left at the moment for the future to decide. But, while giving sanction to the politics of survival, and adopting the guardianship model of development, the state is certainly becoming weaker as a development agent. The states under study have a history of 100 years of great social upheavals. But, how meaningful such social upheavals and historic changes are to rural markets and silk industries, and to rural development in general, is doubtful. The solution lies, as the author visualises, in establishing direct contact between the state and the producers; for this, pressure by the stakeholders needs to be built up. Until that time, development is what the silk worm rearers remark: "where is that development they talk about so much, we are like silk worm ourselves... just going round in circles" (p 226).

The book is analytically rich. It convincingly articulates the development conflicts. However, it would have been rewarding for the readers if more analytical content had gone into the discussion of silk processing. The book is useful to researchers and, even more, to governments.

Note

1 Darwinian varieties of rural entrepreneurs refer to those which are still able to survive the competitive onslaught.

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Pre-Capitalist Markets

Kanakalatha Mukund

Money and the Market in India 1100-1700 edited by Sanjay Subrahmanyam; Oxford University Press, Delhi, 1994; pp ix+316, Rs 300.

AS an economic historian I am constantly amazed at how facilely most economists equate 'markets' with modern economies and, concomitantly, 'pre-modern' with subsistence production and non-monetised exchange. Equally, most people think that administered prices and markets are the by-products of modern planned economies, without realising that anthropologists like Karl Polanyi have theorised about the existence of administered markets even during the ancient period. This book under review would be a useful corrective to such ahistorical perspectives, recreating as it does the relationship between money supply, market behaviour and the state in medieval India, ranging from the Chola period down to the Mughal empire.

Kenneth Hall's essay on the Chola heartland is the only paper in the book on south India and is based on information from temple inscriptions. Hall's major conclusion that the economy of south India was characterised by a spatial and functional hierarchy of markets, with the urban market town ('nagaram') at the apex of the structure is generally widely accepted, with minor criticisms. But Hall's argument that the administrative assemblies of the 'nagaram' also regulated prices extensively seems more suspect. This is based on the fact that values of donations to the temple (equivalents for cows, sheep, etc) or of items used in endowed services do not indicate any variations. As a corollary, Hall has also noted that most exchange values are mentioned in terms of paddy equivalents. The questions which such conclusions raise are: How could local institutions determine prices uniformly over a large region? Could even 'administered' prices continue unchanged over several centuries? If exchange was based on paddy, what was the role of money in the economy? (It may be mentioned here that the inscriptions do mention a wide variety of gold coins like

'kasu', 'ilakkasu', 'tulaippon', etc, which were evidently in use.)

This underscores a fundamental methodological problem in historical analysis, which the editor also indicates in his Introduction. Obviously, quantitative data are not available in sufficient quantity for conclusive statistical analysis in pre-modern India, and the data become more random as we go further back in history. The historian draws inferences from this evidence, on the basic assumption that the figures can be taken to indicate representative trends, when not contra-indicated by other information. This can always be questioned and debated, which may not lead to any definitive conclusions in any case. Most of the papers in this volume, devoted to north India, in fact initiate precisely such debates, questioning earlier historical writing.

Two more papers in the volume also emphasise the extent of state intervention in the economy. The most interesting aspect of both is the fine appreciation shown by the rulers, more than 500 years ago, of the economic links between the prices of foodgrains, general prices and power structures. Alauddin Khilji, recorded a contemporary historian (Zia' Barani), had instituted a series of measures to control prices, especially in Delhi. Though most historians have discounted his work, Habib argues that the facts recorded are accurate and also present the rationalisation for such measures by the king – namely, to make it possible to raise a large army when his kingdom was threatened by Mongol invasions. J F Richards similarly looks at the economy during the rule of Ibrahim Lodi. Contemporary histories again talk of the extraordinarily low level of prices during this period, which has led most historians to infer that this was due to a severe shortage of specie. Richards questions this assumption and demonstrates that the phenomenon of low prices was the result of a deliberate ploy by Ibrahim Lodi to undermine the power of his nobles. The sultan thus ordered that the land revenue, in a year of abundant harvests, should be collected only in kind, which left the revenue assignees with vast quantities of grain which they were forced to sell at very low prices. Habib's arguments leave us with the same question as Hall's conclusions. Did the medieval state have the administrative capacity to regulate prices on such a wide-ranging scale?

Aziza Hasan's paper on currency output and prices in Mughal India in the 17th century has triggered off a major debate among historians working on the period. Hasan has extended to Mughal India Earl Hamilton's hypothesis of a 'price revolution' or general inflation in 16th century Europe due to the steady inflow of American silver. Hasan's argument, espoused in general by the 'Aligarh school', has three propositions. One, due to the influx of a large volume of American silver into Mughal India in the first quarter of the 17th century, there was a corresponding sharp increase in the volume of silver rupees minted; two, after this tapered off, the expansion of European demand for various products of India (textiles, indigo, etc) led to another influx of silver after 1685 originating from Europe; and, three, this resulted in a noticeable price increase in Mughal India. In the ensuing debate, three kinds of criticisms have emerged – about Hasan's use of museum collections of coins as representing coin output, the assumption that bullion inflows came mainly from America via Europe and, most importantly, the assumption that prices recorded for three points of time represent a trend. Subrahmanyam puts together a review of the literature on this question with an outline of the theoretical basis of monetary analysis and a comparison with the experience of west Asia for the same period.

The main interest of B R Grover's paper is his extensive use of non-European, local language sources to analyse the economy of north India, the links between the rural and urban sectors, the patterns of markets, commerce and production. His treatment of the time span of 200 years as an undiffer-entiated period and his strong preference for a totally descriptive reconstruction which misses the analytical implications of his own observations diminish the value of his work. K N Chaudhuri presents a useful macro-level study of markets and their functioning in India, and basically argues that the institutional character of Asian markets was not significantly different from that of Europe in the pre-modern period. Frank Perlin criticises the general tendency among histo-rians to see marked discontinuities in post-Mughal Indian history and stresses the con-tinuities and the development of other financial institutions in response to the changing political scenario in the 18th century.

Sanjay Subrahmanyam's Introduction is a scholar's delight. It gives a synthesis of all the pieces included in this volume, preceded by a general discussion on the theories of pre-capitalist markets, a critical evaluation of the existing historiography on the nature of Mughal state and its revenue system and a sketch of the general works on monetary history of India. He also includes, not very convincingly, a brief discussion on social value systems and attitudes to money by referring to early and late medieval literature, poetry, etc.

While the book shows a high quality of scholarship, it also displays very poor production quality. The standard of proof-reading is quite abysmal, and we have gems like, 'pears' were being exported from the Coromandel (p 58) or, in Subrahmanyam's own article, that the silver equivalent of two to four million rupees was 25.6 to 51.2 million tonnes (p 200). Many more can be listed. More seriously, maps which are referred to in the text are non-existent (see Deyell's paper) and figures are printed without numbers (Hasan's article). At the academic level, because of the attention to thematic unity and careful selection, the book is interesting and insightful, and most important, it manages to avoid the extreme unevenness of quality which marks most books of collected papers.

Industry, Finance and Employment

A Discordant Trinity

Ranjit Sau

The rich industrial countries of the OECD are having a profound technological revolution spearheaded by computer and a host of other marvels of science. Stock markets are booming; corporate profits are at an all-time high. But wages are falling; job insecurity is pervasive; and social tensions are mounting.

Our paradigm uses the non-linear Polya process to represent the ongoing increasing returns, in contrast to the traditional idea of diminishing returns. It is a world of multiple equilibria, instability, unpredictability, and the possibility of getting locked-in to an inferior equilibrium. In this milieu we portray the current scene as one of contradictions between 'industry' and 'finance': the former presses for output growth, the latter insists on zero-inflation. Evidently, labour is the worst loser in this battle royal.

The central banks of OECD countries are sacrificing millions of workers and trillions of dollars of output at the altar of the pseudo-icon, namely, zero-inflation. This pursuit, if continued, would cost 7 per cent of GDP, that is, some five millions of jobs, in the US alone. Will the US pay this high a price for price stability?

BY one reckoning the golden age of capitalism came to an end three decades ago. What followed is not very clear yet. Certainly not diamond, or platinum. Maybe, it is a silicon age, named after the material of tiny chips in computer that is changing the way we live.

"The world may be moving inexorbly toward one of those tragic moments", writes Kapstein (1996:18), "that will lead future historians to ask, why was nothing done in time?" The globalising economy is leaving millions of disaffected workers by the way side. Unemployment, inequality, insecurity, and poverty have become its handmaidens. Rapid technological change and international competition are fraying the job markets of major industrial countries. At the same time, systemic pressures are curtailing the government's initiatives. Just when the citizens need the nation-state as a buffer from the world economy, it is abandoning them. With this perception Kapstein asks: "Were the economic policy elites unaware of the profound disruption that economic and technological changes were causing working men and women? What prevented them from taking the steps necessary to prevent a global social crisis?"

The current predicament is hardly unprecedented. About this time, 100 years ago, the steam engine and telegraph were making a very similar explosion in trade and commerce. During the 19th century the world enjoyed a burst in production and investment. But severe dislocation accompanied that process of globalisation, and eventually contributed to its undoing.

The present essay is motivated by such concerns; but it has a fairly modest agenda. One has to interpret the object before one can think of changing it. So we begin at the beginning, and make an attempt to understand what is happening. The gist of our search is as follows. In contrast to the Victorian image of an optimising, stable, and genteel economy in equilibrium under the law of diminishing returns, we recognise that some industries, at the moment hi-techs, for example, display increasing returns with Schumpeterian innovations which, in turn, kick up asset bubbles. With the arrival of computers and the associated information technology (IT) a major transformation is under way since the 1970s. It is polarising the distribution of income and wealth. The consumption propensity of the impoverished, we know, is close to one. And so is that of the rich as well; for they have amassed vast amounts of wealth through industry and finance. The Pigou effect bears down upon those affluent consumers and keep up their budget lines high – conspicuous of otherwise. As a result the rate of saving is low and falling. Hence the multiplier (the reciprocal of the propensity to save) has risen with the effect that the inflation-impact of autonomous expenditures like investment and export is going up.

Meanwhile, in the wake of sustained growth during the earlier decades a powerful financial-rentier class has taken shape. Owners of paper-wealth dislike inflation most; and they have been persuaded by a theory that certain amount of unemployment is essential for keeping prices steady. Accordingly, zero-inflation has become the sole target of policy-makers. With the slightest hint of inflation deflationary measures like raising interest rates are adopted. That hurts the real investment, and a series of consequences follows. With relatively meagre capital accumulation the potential output of the economy decelerates, and the rate of unemployment rises even in the long run. Herein resides the seed of internal contradictions of the system. This story, to be sure, relates immeidately to the US at present times; and seems amenable to generalisation for world capitalism as a whole.

A New Paradigm

The history of the development of IT infrastructure began in the early 1960s and evolved in three stages. First, during the data processing era of 1960-80 the focus was on automating manual transaction-processing jobs. Second, during the micro-computer era of 1980-95 the emphasis shifted to enhancing professional functions such as engineering, financial analysis, and management. Finally, the emerging network era (from about 1990, overlapping with the preceding one) is a consequence of fusing of computer with telecommunications technology. Inter-firm integration of these technologies allows for a new firm structure, known as the IT-enabled network, more suited to competition in the global marketplace.

The computer's debut into business was a non-event of the 1960s, and remained so for more than a decade. Because mechanical punch-card equipment of the period looked so much like any other capital-based technology designed to automate production, business organisations were inclined to treat IT as a specialised form of capital rather than a new factor of production, which it was. Computers were first applied to the automation of low-level, routine work of

accounting departments; then they spread to the areas of purchasing, inventory control, and management of manufacturing processes. A critical mass of capability and experience was reached by the mid-1970s. The subsequent developments have been phenomenal in both quantity and quality. Meanwhile, due to inertia, oversight, and evasion by the management a sizeable amount of slack in manpower had piled up in business, which could no longer be borne under the threat of global competition. In time the crunch came. "To align a firm's structure for carrying out work so that the information technology that it has assembled over the years can be leveraged", conclude Nolan and Croson (1995:25), "a firm must be prepared to downsize forcefully and painfully". As for the order of magnitude of the required labour-shedding they consider as reasonable a "commitment to eliminate upward of 50 per cent of the workforce while maintaining current levels [of revenue]". This is, indeed, a breathtaking episode of creative destruction whose sheer magnitude would have overwhelmed even Schumpeter. While the actual extent of retrenchment and layoff on account of technological updating *per se* is hard to measure, the enormity of the impact is beyond any doubt. In 1993, large US companies announced nearly 0.6 million layoffs, which is 25 per cent more than were carried out in 1992, and nearly 10 per cent more than in 1991 [Hamel and Prahalad 1994:124]. The casualty estimates of downsizing vary widely, ranging from the conservative figure of 3.1 million publicly announced layoffs since 1989 to the much-debated *New York Times* tally of 21.2 million in the same period.

Not just the computer-driven IT, but a wide range of knowledge-based hi-tech industries have sprung up in pharmaceuticals, aircraft, missiles, telecommunication equipment, bio-engineered drugs, and the like. The products are complicated to design and fabricate. They are intensive in know-how and light on resources. Hence they typically have R and D costs that are large relative to their unit production costs. "The first disk of Windows to go out the door cost Microsoft $50 million; the second and subsequent disks cost $3. Unit costs fall as sales increase" [Arthur 1996:103]. This is the essence of increasing returns.

The increasing-returns world of hi-tech products is not yet common in the economics literature. It does not sit well in the models of Walras or Marshall. Appropriate mathematical apparatus was not available in their days; the non-linear random process theory did not exist at that time. That situation has now changed. In 1931 mathematician George Polya took the first step, which remained obscure till 1980 when probability-theorists Bruce Hill, David Lane, and William Sudderth solved a more general non-linear problem. The next breakthrough came in 1983 as a result of a joint project of Brian Arthur, Yuri Ermoliev, and Yuri Kaniovski. The theory of increasing returns is new, but it is well established, and most relevant. Now we know that the hallmarks of increasing returns are: market instability (the market tilts in favour of a product that gets ahead), multiple potential outcomes (non-ergodicity or path dependence), unpredictability, the possible predominance of an inferior product, and fat profits for the winner.[1]

We follow Arthur (1994) to illustrate the non-linear Polya process in this context. Suppose that H hi-tech companies are trying to build up their respective market shares. In order to introduce the phenomenon of increasing returns assume that a unit addition of sales revenue is made to one of H companies each time, with probabilities that are a function of the proportion of units currently in the H categories. Time here is event time, not clock time. Thus the next unit of sales is added to company i with probability $p_i(x)$ where x is the vector of current proportions, that is, market shares. The vector of probabilities $p = [p_1(x), \ldots p_H(x)]$ is a function that maps the unit simplex of proportions into the unit simplex of probabilities. The question is: how market shares of these companies, or equivalently the numbers or proportions in each category, build up. What happens to the long-run proportions in such a system? What limiting steady-states can emerge?

The process starts at time 1, with an initial vector of companywise allocations of total sales revenue denoted by q. Let y_t be a vector that describes the number of units in companies 1 through H at time t, when {q+(t-1)} units of sales in total have been allocated. Let b_j be the j-th unit vector with probability $p_j(x_t)$. Then,

$$(1) \quad y_{t+1} = y_t + b(x_t)$$

By definition, we have, $x_t = y_t/(q+t-1)$, and $x_{t+1} = y_{t+1}/(q+t)$. Dividing eqn (1) by total units (q+t), we find that the vector of proportions of companies 1 through H, that is, their market shares, evolves as follows.

$$(2) \quad X_{t+1} = x_t + [b(x_t) - x_t]/(q+t)$$

Eqn (2) can be rewritten in the form

$$(3) \quad X_{t+1} = x_t + [p(x_t) - x_t]/(q+t) + \theta(x_t)/(q+t).$$

Here θ is defined as the random vector.

$$(4) \quad \theta(x_t) = b(x_t) - p(x_t), \text{ with } E(\theta | x_t) = 0.$$

The dynamics of the companies' market shares is governed by the stochastic difference eqn (3). The conditional expectation of θ with respect to the current state x_t is zero. Thus (3) and (4) yield

$$(5) \quad E(x_{t+1}|x_t) - x_t = [p(x_t) - x_t]/(q+t)$$

Eqn (5) shows that if the probability $p_j(x_t)$ of an addition to company j is greater than the current proportion $x_j(t)$ for company j, then this company's market share would rise. Conversely, if the probability is less than the current proportion, it would decrease.

Depending upon the function p, there may be several points x (several patterns of market shares) at which the deterministic motion as of (5) is zero. These are the fixed points of p, where p(x) = x. Some of these are attractor or stable points, while others are repellant

TABLE 2 RATE OF SAVING IN THE US

Year	Gross Saving as a Per Cent of GNP	Personal Saving as a Per Cent of Disposable Personal Income
1960	21.5	6 4
1965	22 2	7 6
1970	19 0	8 4
1975	18 1	9 0
1980	19 4	8.2
1985	17 8	6.9
1990	15 7	5.0
1991	15.8	5 7
1992	14.5	5 9
1993	14.3	4.5
1994	15.3	3 8

Source. Economic Report of the President, 1996, Table B-28, Washington, DC.

TABLE 1: OPEN AND DISGUISED UNEMPLOYMENT, 1993

Country	Official Rate of Unemployment (%) (A)	Disguised Unemployment (%) Total (B)	Part-timers	Discouraged Workers	(B)/(A)
Canada	6.8	3.4	2.5	0.9	0.50
France	11.5	3.2	3.0	0.2	0.28
Germany	7 7	NA	1.1	NA	NA
Italy	10.4	7.6	2.3	5.3	0.73
Netherlands	7.4	3.5	2.8	0.7	0.47
Sweden	9.3	6.5	5.0	1.5	0.70
U K	10.3	3.5	2 8	0.7	0.34
U S	6.8	3.4	2.5	0.9	0.50

Source: Computed from the table 'Percentage Unemployment, Alternative Measures, Various Countries, 1993', constructed by our distinguished colleague, Roy B Helfgott and privately communicated to the present author. Such identification and interpretation of the data are entirely my responsibility.

or unstable points. Figure 1 depicts the case of dimension H = 2, where A, C, E are stable points, and B, D are unstable.

The economy that we visualise has two sectors: one obeys the law of diminishing returns, the other exhibits increasing returns. The former consists of bulk production: of coal, lumber, heavy chemicals, soybeans, coffee, metal ores, pig iron – commodities heavy on resources, light on know-how. Marshall analysed their market, in competitive equilibrium, that fitted beautifully with the Victorian values of his time. By contrast, the increasing-returns sector of modern industries is knowledge-intensive and extremely dynamic. The two sectors are not neatly split. Hewlett-Packard, for example, designs knowledge-based devices in Palo Alto, and manufactures them in Corvallis, or Greeley. Most hi-tech companies have both knowledge-based operations and bulk-processing operations. But because the rules of the game differ for each, companies often separate them. Conversely, manufacturing companies have operations such as logistics, branding, marketing, and distribution which belong largely to the knowledge world. And some products – like the personal computer – start in the increasing-returns world, but later in their life cycle become virtual commodities that belong to Marshall's processing world.

To survive and thrive in such an economy it is not enough for a firm to achieve competitiveness in the price/performance attributes of current products alone. The survivors of the first wave of global competition, Western and Japanese alike, are all converging on similar and formidable standards for product cost and quality. In the long run, competitiveness derives from an ability to build, at lower cost and more speedily than competitors, a well-integrated complex of production skills and streams of technologies, collectively known in the business literature a the "core competency" [Prahalad and Hamel 1990:82]. At least three tests can be applied to identify core competencies in a company. First, a core competence provides potential access to a wide variety of new and emerging markets. Second, a core competence should make a significant contribution to the perceived customer benefits of the end product. Finally, a core competence should be difficult for competitors to imitate. And it will be difficult if it is a complex harmonisation of individual technologies and production skills. A rival might acquire some of the technologies that comprise the core competence, but to duplicate the comprehensive pattern of internal co-ordination and learning is not an easy task. The diversified corporation, in this milieu, is comparable to a large tree. The trunk and major limbs are core products, the smaller branches are business units; the leaves, flowers and fruits are end products. The root system that provides nourishment, sustenance and stability is the core competence. Such a company is well-focused, not diffused. The wave of reorganisation, restructuring, merger and acquisition, spin-off, and divestiture that is currently sweeping the US runs counter to the doctrine of massive diversification that prevailed in the preceding decades. And it seems to be driven by this theory of core competency. No doubt, it spawns increasing returns.

At another level the economy may be considered to have two segments, namely, 'industry' and 'finance' [Keynes 1930:42-43, 217-30]. The former constitutes the so-called 'real' economy that produces goods and services, while the latter deals with financial assets such as money, bonds, stocks, and derivatives. Like industry, finance also can generate increasing returns with all the consequences of multiple equilibria, contingent selection, chaos, or persistent disequilibrium.[2]

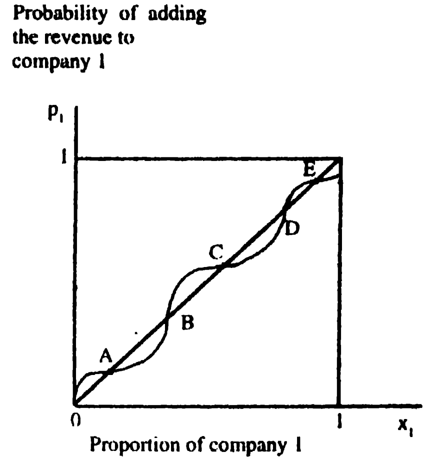
It is not conceptually easy to move from this two-by-two classification (industry/finance, and diminishing/increasing returns) to the plane of an aggregative macro-economics, or vice versa. However, the circle of the story can be completed as follows. Core competencies of the firms emerge from innovations that create new products, processes, consumer preferences and markets. At this phase the firms enjoy increasing returns. Financial markets respond with enthusiasm; asset bubbles are formed. The market equilibrium is not necessarily unique, nor is it stable, let alone optimality in any sense. In due course the Schumpeterian novelties pass into Marshallian commodities, and the cycle ends often with a financial crisis *a la* Minsky. What is most noteworthy is that despite all these thorough-going micro-economic changes the macro-economy may well stagnate in terms of aggregate employment and output, if the boom in income and wealth fails to translate into higher saving and investment. In fact, this may well be an apt description of the present reality.

Policy Paralysis

Between 1971 and 1978, the G-7 economies enjoyed an annual growth rate of 3.5 per cent, and this happened even during a period of severe oil shocks, with the consequent rise in energy prices and inflation. Since 1989, by contrast, growth has averaged 2.1 per cent. For Japan the drop has been even sharper – from 4.5 per cent during 1971-78 to a mere 2.4 per cent in the 1990s. Meanwhile, between 1979 and 1994 unemployment in the OECD rose from 5.1 per cent to as much as 8 per cent.

In western Europe the unemployment figures are frightening. During 1969-73 France had unemployment at the rate of 2.6 per cent; today it is 11 per cent. Germany witnessed a jump from below 1 per cent to 10 per cent now. The Europeans have created a lost generation of workers, and are suffering from it in terms of increased crime, drug abuse, violence against immigrants, and the increasing popularity of extremist political groups.

Figure 1: Non-Linear Polya Process



As for the causes of this malady the OECD (1994) observes: "[M]uch unemployment is the unfortunate result of societies' failure to adapt to a world of rapid change and intensified global competition. Rules and regulations, practices and policies, and institutions designed for an earlier era have resulted in labour markets that are too inflexible for today's world." Thus, the blame goes to the so-called rigidity in the labour market. Krugman (1994) expresses a similar view: labour market "distortions" create a floor on real wages, and unemployment rises when the equilibrium wages fall below it.

The US is cited as the prime example of wage flexibility and full employment. There is an element of illusion here. The official data on unemployment are somewhat misleading in that they do not recognise what is known as 'disguised unemployment'. Eatwell (1995:Table 12) has estimated that, in 1990, the size of disguised unemployment in the US and UK was as large as the officially reported 'open' unemployment. In a sense, then, the 'true' unemployment is twice the published numbers. In this respect Japan has the worst case where the disguised unemployment is eight times the officially counted figure of unemployment. The next is Canada with the disguised unemployment of nearly three times the size of the recorded unemployment. France, Germany, and Italy also have disguised unemployment, but of relatively smaller magnitude.

Interesting as this exercise is, the methodology of Eatwell leaves much to be desired. He takes the sectoral average product of labour as the criterion, and the

manufacturing industry as the point of reference. "Disguised unemployment is defined as employment in very low productivity sectors. As a rule of thumb, 'very low' is defined as being a level of output per head less than 80 per cent of output per head in manufacturing" [Eatwell 1995:25]. This, in our view, is ad hoc and arbitrary. It may be devoid of any significance. An economy does not tend to equalise the average product of labour across sectors which may have different degrees of capital intensity. Rather, one might expect equalisation of the marginal product of labour. Put another way, one can see disguised unemployment in the Eatwell sense even when there is excess demand for goods in a competitive economy.

All the same, Eatwell's resurrection of the concept of disguised unemployment, introduced way back in 1937 by Joan Robinson to describe the situation in Britain then reeling under the Great Depression, is timely and illuminating. Keeping the basic issue in view, one can try an alternative route for measurement, namely, defining disguised unemployment as the sum of (a) persons working part-time because full-time work is not available, and (b) the so-called 'discouraged' workers who have searched, in vain, for job in the past 12 months and been available for work, but not working, and dropped out of the labour force in disappointment. This procedure draws upon the pioneering research on labour utilisation by Julis Shishkin (1976) of the US Bureau of Labour Statistics. Table 1 gives the corresponding estimates By this method, the size of total unemployment (official plus disguised) in the US is 150 per cent of the published figure of official unemployment. Thus reckoned, the total unemployment in the US was as much as 10 per cent in 1993.

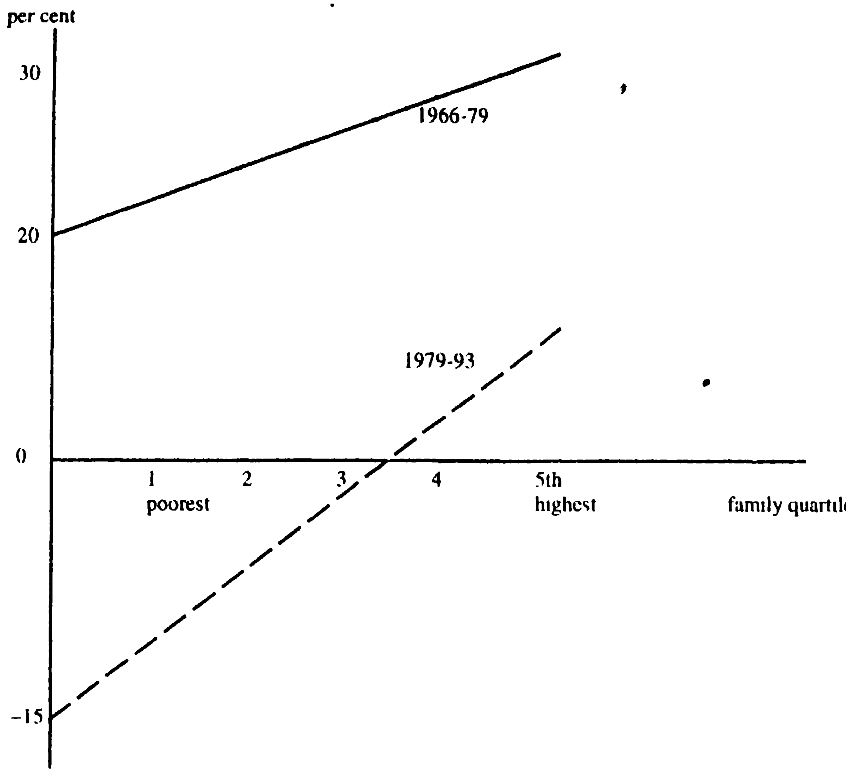
The US department of labour has just released the latest available data, for August 1996. The civilian labour force is 133.9 million, of which 6 8 million are out of work; so the official rate of unemployment is 5.1 per cent, a very low rate indeed. But according to the same report, 4.4 million are obliged to working part-time because full-time work is unavailable, and 0.4 million are 'discouraged workers' no longer looking for work in disappointment. Thus, the 'hidden' unemployment comes to 4.8 million, compared to the official unemployment of 6.8 million. The disguised unemployment was, by this logic, equivalent to 70 per cent of the open unemployment in August 1996.

The American scene of job creation has two aspects. First, it is apparently the best among the OECD countries. Second, yet it is not good enough, for the total unemployment rate is as high as about 10 per cent. Let us take these two features in that order. How did the US achieve relatively low open unemployment in comparison with the west European countries? The usual answer is: flexibility of the labour market. It is true, in part; but it cannot be the complete answer. The US has used two policy instruments, namely, wage rate and the exchange rate. As for the latter, suffice it to mention that for a quarter of a century to 1971 one dollar was worth 360 Japanese yen; since then it has depreciated, and through ups and downs it has reached the level of around 100 yen in recent years. Weakening of the dollar has helped American exports around the world.

As for the wages, the trend is unmistakably downward. Until the early 1970s, the history of the US job market in this century was one of rising wages – at about 2 per cent a year; thereafter, real wages have declined paving the way for what Freeman (1996) calls an 'apartheid economy'. The average hourly earnings (wages and benefits) of workers in private non-agricultural industries was (at 1982-dollars) 6.69 dollars in 1959, and rose steadily to the peak of 8.55 dollars in 1973. Then the downhill journey began, and the floor of 7.40 dollars was reached in 1992. It is crawling there as of now.

An eloquent picture of sharpening inequality in the US is given in Figure 2; it is a stylised version of chart 1.4, *Economic Report of the President*, 1996 (p 23). Between 1966 and 1979 Americans all across the income distribution enjoyed the benefits of economywide growth in real incomes: families in the poorest fifth of the population saw their real incomes grow by 20 per cent, while families in the top fifth experienced real income growth of 28 per cent. But since 1979 family incomes have moved apart. Between 1979 and 1993 real family incomes in the bottom fifth fell by 15 per cent, while the incomes of the top fifth rose by 18 per cent. Amidst all this, incomes of the top 5 per cent of the families maintained their growth rate at 30 per cent in both periods.

FIGURE 2: CHANGES IN AVERAGE FAMILY INCOME BY QUARTILE, THE US



Source: *Economic Report of the President*, 1996:23, Washington, DC.

A study released last year by the Twentieth Century Fund reveals that by 1989 inequality in the distribution of wealth in the US had reached a 60-year high. "The sharp increase in inequality since the late-1970s has made the distribution of wealth in this country more unequal than what used to be perceived as the class-ridden societies of north-west Europe. Today the US is the most unequal of any industrialised country in terms of income and, more importantly, wealth." The most telling finding, the report continues, is that the share of marketable net worth held by the top 1 per cent, which had fallen by 10 percentage points between 1945 and 1976, increased from 34 per cent in 1983 to 39 per cent in 1989. During the same time, the share of wealth held by the bottom 80 per cent fell by more than a fifth from 19 per cent to 15 per cent.

These trends are mirrored in financial net worth which is distributed even more

unequally than total household wealth. In 1989 the top 1 per cent of families as ranked by financial wealth owned 48 per cent of the total. The top 20 per cent of Americans accounted for as much as 94 per cent of all financial wealth [Herbert 1996]. Alongside this, place the following facts. After 18 months of phenomenal ascent, American stock market is hovering at the stratosphere. Since the end of 1994 the Dow Jones industrial average has climbed by 50 per cent; the broader S and P index has risen by 46 per cent. This has increased America's financial wealth by 2.4 trillion dollars – more than the entire annual output of Germany (*The Economist*, July 6-12, 1996:23). It means that *pro rata* the US stock exchange creates capital gains of 1.6 trillion dollars a year, while the 'real' economy of the US produces goods and services of some seven trillion dollars, and makes real investment of only one trillion dollars. And almost all of the immense capital gains accrue to a tiny fraction of the population. This highlights the crucial importance of the financial sector in the US economy.[3]

Financial markets are most sensitive to inflation that erodes the value of their holdings. It is therefore quite natural that the financial rentiers will declare inflation as their enemy number one From here it takes a small step to realise why the concept of the so-called 'natural' rate of unemployment, or the non-accelerating-inflation-rate-of-unemployment (NAIRU) appeals so much to the policy-makers. Facts do not seem to support the NAIRU theory. On the one hand, the persistent double-digit unemployment rate in Europe has not led to deflation; on the other, nor has the fall of the official unemployment rate below the perceived 'natural rate' of 6 per cent triggered off spiralling inflation in the US in the last two years. Yet, reportedly, the myth of the NAIRU theory continues to hold the Federal Reserve in thrall; the Fed considers some unemployment as 'natural'. Ball (1996) shows that the main cause of rising unemployment during the 1980s was the tight monetary policy that most OECD countries pursued to contain inflation.

The drama of the evolution of American policy perspectives is well captured in three Acts. The US in the aftermath of the second world war was guided by the Employment Act of 1946 which stated:

> The Congress hereby declares that it is the continuing policy and responsibility of the federal government to use all practicable means consistent with its needs and obligations ...to promote maximum employment, production, and purchasing power.

The top-most priority assigned to full employment is noteworthy.

The next stage was ushered in by the 1978 Full Employment And Balanced Growth Act, more generally known after its two sponsors as the Humphrey-Hawkins Act. The act established quantitative goals – a 4 per cent unemployment rate, and, yes, an interim target of 3 per cent inflation – as the nation's objectives. Now inflation has found a prominent place alongside with growth.

Finally, growth has been pushed out of the priority list. Senator Connie Mack has proposed the Economic Growth and Price Stability Act of 1995 that mandates the Federal Reserve to pursue zero-inflation as the prime target. Price stability, the act declares, "is a key condition to maintaining the highest possible level of productivity, real incomes, living standards, employment, and global competitiveness". It is a noble declaration, no doubt, observes Krugman (1996), but there is hardly any reason to believe that the underlying theory, syllogism, or evidence of the act are true. The Mack Act is misguided. An answer to Kapstein's query about policy paralysis, cited above, can possibly be found in the changing balance of power in the American economy and polity, specially in the rise and dominance of the financial-rentier class.

Contradictions

The most fundamental flaw with the natural rate or the NAIRU theory is that, despite its professed dynamic nature, its underlying production function ignores the capital stock altogether. As the critiques like Akerlof, Dickens, and Perry (1996) put it the production function of the NAIRU theory is given by

$$(6) \quad Q = L.$$

Here Q is output, and L is employment. Evidently, (6) either assumes constant returns to scale with capital always mysteriously adjusting with the rise and fall of labour, or pretends that capital does not exist as a factor of production.

The productivity of labour depends upon capital. When the Fed raises the interest rate in anticipation of inflation, investment falls; and so its prophecy becomes self-fulfilling. However, the NAIRU theory, as such, is doubly indeterminate. First, it speaks of a rate of unemployment that prevents acceleration of the rate of inflation, but the rate of inflation itself is left to be specified. Now, the Fed closes this gap by announcing its target of zero-inflation. Second, the relationship between wages and price cannot be independent of the productivity of labour which in turn depends upon the volume of capital. This indeterminacy still persists in the literature.

One of the basic problems of the American economy is the slow pace of capital accumulation. Table 2 shows that the rate of saving is falling – both the gross saving as a per cent of GNP, and the personal saving as a per cent of disposable personal income. With the fall of the rate of saving, the value of the multiplier (reciprocal of the propensity to save) rises. That means greater inflationary impact of autonomous expenditures like investment and export in the short run. And that prompts the Fed to raise the interest rate. As a result investment slows down.

But why is the propensity to save falling? There are several factors at work here. Two of them deserve special mention. The pattern of income and wealth distribution is getting increasingly polarised. On the one hand, impoverishment of the majority of Americans as depicted in Figure 2 drives the poor households to the point where their propensity to consume becomes almost one. On the other, the fabulous wealth of the affluent minority who also receive bulk of the income, makes their consumption pattern extravagant. Such a structural feature tells upon the rate of saving, raises the interest rate, slows down output growth, raises unemployment, and lowers the wages, further reinforcing the vicious circle. The economy, then, can hardly absorb a growing labour force.

The American dilemma can be cast in terms of an interplay between 'industry' and 'finance' as defined by Keynes (1930:42-43, 217-30). Innovations in hi-tech industries generate increasing returns that is sustaining a remarkable bull session in stock and bound markets. We know, the owners of financial wealth perceive inflation as a big threat, for it erodes the real value of their holdings, and reduces the price of their assets as interest rate rises in accordance with the Fisher equation. So they insist on zero-inflation. And they link up the rate of employment with the demand for higher wages that presumably pushes up prices. Thus, "a powerful antigrowth bias has been created in this country by the financial markets' theological commitment to the proposition that higher growth inevitably leads to higher inflation" [Rohatyn 1996]. Little do they care that, as estimated by Akerlof, Dickens and Perry (1996), trying to drive the inflation rate down to zero, "the nirvana of the bond market", would slow the economy by increasing unemployment by 2 per cent.

In contrast with the attitude of financial markets, American industry takes a different stand. The National Association of Manufacturers, for example, are convinced that not only higher growth is possible, but it is necessary for dealing with the country's social problems. The NAM recently issued a report calling for an objective of achieving a 3 per cent annual growth rate by the year 2000, and ultimately, 3.5 per cent a year. It is realised that powerful deflationary forces are at work all over the globe. The drive to

meet the Maastricht criteria for a common European currency is forcing budgetary contraction all over Europe. France and Germany are currently struggling with double-digit unemployment rates; and the overhang of mountain-size bad debts throughout the Japanese financial system is keeping its economy depressed. The ability to move production all over the world and the entry of over one billion people into the global workforce will hold prices and wages in the industrial countries on line. Under the circumstances, the threat of inflationary pressure is remote. What is more, a bit of inflation might be even welcome by the industry, for it serves as a convenient device to help reduce real wages when nominal wages are sticky downwards.

In this battle royal between industry and finance, the worst loser is labour. The stock market is booming; corporate profits are at an all-time high. But wages are low or falling; job insecurity is widespread. Signs of disguised unemployment are not so much hidden; they are openly visible in railroad stations and city streets. "Fully 2 per cent of all working-age American men are behind bars" [Kapstein 1996:22] – they are not even counted as part of the 'labour force' of the country.

Central banks of rich OECD countries are wedded to the doctrine of zero-inflation. The forthcoming European Monetary Authority, which will preside over the monetary union, will operate under a constitution that honours price stability above all else. The result will be aggravation of the already-serious unemployment situation in Europe. The current inflation rate in Canada is 1 per cent; and the central bank there is fiercely committed to extinguish all traces of inflation. The Canadian unemployment rate is now as high as 10 per cent; and it will certainly worsen as the central bank steers the economy to the plateau of stable prices.

When he drafted the bill senator Connie Mack might not have been aware of the costs of the act. Let us look at a comparable episode. The great disinflation of the 1980s brought down inflation from 10 per cent to around 4 per cent, but it was very expensive in terms of high unemployment and excess capacity. There was a deep recession: the 6 percentage-point drop in inflation entailed the cumulative loss of output of more than one trillion dollars. At present the rate of inflation is about 3 per cent. To wrench it out from the system, by the above-mentioned historical standard, it would require a decline in output by about half a trillion dollars which is equivalent to 7 per cent of current GDP. According to Okun's Law, then, unemployment will have to rise by as much as 3.5 percentage points; that is, some five million workers will lose their jobs. Will the US pay such a high price for price-stability?

Notes

1 Romer (1986) has pioneered a well specified competitive model of growth with increasing returns in the production of output, decreasing returns in the production of new knowledge, and externalities. Despite the presence of increasing returns, a competitive equilibrium with externalities exists This equilibrium is not Pareto optimal, but it is the outcome of a well-behaved positive model Here, each firm maximises profits taking the aggregate level of knowledge as given. In Arthur's (1994, 1996) economy, by contrast, innovations do not necessarily obey the law of decreasing returns Hence the difference between Arthur's and Romer's findings

2 The literature on asset bubble is relatively new, but fairly well developed [Blanchard and Fischer 1989; Grossman and Yanagawa 1993, Tirole 1982, 1985; Wallace 1980, and Weil 1987] except that it does not say what makes the bubble start in the first place, and how. Our point of departure is that we invoke Arthur (1994, 1996) to surmise that an asset bubble may be initiated by the emergence of an increasing-returns industry, and may come to an end as that industry eventually passes into a commonplace Marshallian commodity in the decreasing-returns part of the world

3 The size and level of activity in US financial markets can be gauged from the following According to the *Statistical Abstract of the United States, 1995*, the holdings of equities, and of corporate and foreign bonds were respectively, six trillion dollars, and 2.4 trillion dollars in 1994 The bond market seems to be more active in the sense that there the net purchases were worth 142 billion dollars, while those in the equity market amounted to 32 billion dollars in the same year

Over the long period of 1926-1993, the Ibbotson Associates have computed, the geometric average return (nominal) was 10 3 per cent on common stocks of large firms, 12.4 per cent on those of small firms, and 5.6 per cent on long-term corporate bonds, while the inflation rate was 3 1 per cent [Poterba and Summers 1995:52]

Bernstein (1996) identifies a major turning point in the late 1950s when bonds first yielded more than stocks, blowing apart a relationship sanctified by more than 80 years of history. From 1871 to 1959, stock yields exceeded bond yields by an average of 1.3 percentage points, with only three transitory reversals of which the last one was in 1929. Since 1958, Bernstein notes, bond yields have exceeded stock yields by an average of 3.5 percentage points.

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Child Labour in India

Putting Compulsory Primary Education on the Political Agenda

Myron Weiner

On educating its children India remains so behind the rest of Asia that it will take a major infusion of resources and political leadership to catch up. Deep class/caste divisions have been barriers to the development of a national drive for mass education by those who have made it to the upper strata. As the economy opens and employment opportunities grow with the expansion of the country's consumer industries, the governing middle class may recognise that the country needs a more literate population and therefore must invest in its children. But it will take a major coalition of locally based groups, the active participation of the media, the contribution of researchers and the information they disseminate, the support of investors, educators, social activists and trade unions and international donor agencies to get India to address the way it treats the children of the poor.

THE recent assassination of Iqbal Masih, a 12-year-old former bonded carpet weaver in Pakistan who campaigned against child labour, reminds us that child labour is not simply the working out of the market in a poor country but is made to happen by organised interests This 12-year-old started working as a carpet weaver at the age of four when he was sold by his parents to a factory. Through the efforts of the Bonded Labour Liberation Front of Pakistan Masih was liberated from bondage in 1992 and subsequently achieved celebrity status when he was invited to give an account of his life at an international labour conference in Stockholm in November 1994. According to Ehsanullah Khan, president of the Bonded Labour Liberation Front, Masih had become the target of carpet industry owners and landlords and received death threats shortly before he was killed one evening in early April when a man with a shotgun fired at him, then fled.

Pakistan, India and Bangladesh have the world's largest number of child labourers, so that any effort to address the phenomenon of child labour in the third world must deal with south Asia. In this paper I shall focus on India, both because it is what I know best and because India has the largest number of child labourers in the world and a greater incidence of child labour than any of the countries outside this region.

We do not need statistics to make the point. Any visitor to India can see how widespread child labour is. In a drive through the rural countryside of Andhra Pradesh one sees children caring for cattle, not their families' cattle as one might suppose, but as indentured labourers paying off debts incurred by their parents. In a walk through the market in Bangalore one sees children working in the shops and as peddlers. A visitor to a Bihar village will see children working in the fields during school hours. In Bombay one sees street children everywhere – ragpicking in garbage dumps, cleaning tables in tea stalls, begging, pimping, and prostituting. In countless towns one sees children in small shops making matches, weaving carpets, cutting diamonds, blowing glass, forging brassware, packing, hauling, sweeping.

The official statistics confirm the visual impressions. According to the government of India the number of working children was estimated at about 17 million in the National Sample Survey, with a projected 20 million working children by the year 2000. Other studies indicate that these figures are a gross underestimation. A study sponsored by the labour ministry reports that 44 million children in the 5-14 age group are in the labour force. Different definitions of the working child explain the wide variations in the numbers, since official figures generally omit children engaged in non-wage domestic work.

Figures on school attendance are somewhat more reliable. They are based on the national census and on surveys conducted by state education departments. According to the 1993-94 report of the department of education drop-out rates in classes one to five were 47 per cent and in classes one to eight 62 per cent. In other words, nearly half of India's children who enter first grade drop out by the fifth grade. Another government estimate puts the percentage of children in the 6-14 age group attending school at around 49 per cent, but a recent (September 1994) National Sample Survey conducted by the National Council of Applied Economic Research reports that the percentage of non-enrolled children is higher. According to official figures 90 million out of 179 million children in this age group do not go to school. These figures are eight million higher than what is reported in the 1981 Census. It should be noted that of every five children in school, only two are girls – with an even greater gender disparity in rural areas. The highest drop-out rates are among girls who belong to scheduled tribes.

The figures on literacy rates are consistent with the figures on school enrolment. The expansion of literacy has not kept pace with the growth in population. The 1981 Census reported that 314 million Indians were illiterate; the 1991 Census put the number of illiterates at 335 million, an increase of two million a year. The 1991 Census reported that fewer than 40 per cent of the adult females in seven of India's states were literate, and as few as 25 per cent in Uttar Pradesh, India's most populous state. The reason for these high primary school drop-out rates and high illiteracy rates, Indian government officials say, is that many children don't want to go to school or are too poor to attend. So much for the numbers.

Most of the 90 million children not in school are working children. Some are paid by employers, others contribute to family income by caring for cattle, working in the fields or engaging in household industries, and still others work at home collecting water and fuel and taking care of younger siblings.

There are some parts of India's economy where you will not see children at work. Children do not work in the large textile mills, or in any of the large industrial plants. The factory acts ban the employment of children in large factories. Paradoxically, these are the enterprises where working conditions (ventilation, lighting, sanitation, etc) are at their best and wages are higher. Children are, however, legally permitted to work in cottage industries, and in the household and service sectors where working conditions are not regulated, wages are low, and hours are long.

The Child Labour Prohibition and Regulation Act of 1986 emphasises regulation rather than prohibition of child labour. The legislation bans the employment of children in factories and restricts employment in so-called hazardous work, but children are otherwise permitted to enter the labour force – at any age. Though children are not employed in the large factories they can legally be employed in small workshops. Much of the carpet weaving in India is done in household workshops where children and their parents perform piecework. Though children are prohibited from working in the large match-making factories in Sivakasi, they are free to work in the numerous small workshops scattered outside the town. Large

numbers of children work in tens of thousands of tea stalls and restaurants. And, of course, most children work in the agricultural sector, often as agricultural labourers. Many middle class households also employ children as sweepers and household servants. The main point is that there are hundreds of thousands of employers of children in India.

Many third world governments, India's included, have argued that western countries are attempting to impose their own values upon them by insisting upon an end to child labour. Child labour, they argue, is not as onerous as it was in the west. Children, they say, are not being exploited since they are part of family labour where they acquire skills as apprentices. Moreover, poor families need the labour and the income of their children and should not be coerced into sending them to school. The schools themselves are often irrelevant to their needs. Finally, it is argued that small-scale industries need low-wage labour to survive if they are to compete against large and more efficient firms.

Some western economists find many of these arguments credible. *The Economist*, for example, wrote that "Poor families need the income of children, whatever the law says...Better schools and faster economic development will help reduce child labour" ('The Little Match Girls', *The Economist*, January 15, 1994, p 38). Restrictions on the importation of goods produced by children might slow economic growth and therefore delay the reduction of child labour. In short, culture is not the barrier to the elimination of child labour, but economics. The policy conclusion. don't try to change the cultures, but do try to improve the economies of developing countries.

The story, I shall argue, is more complicated than that. Culture is a factor not in the attitudes of parents but in the views of policy-makers. If the US and other developed countries are to play a role in the reduction and elimination of child labour in developing countries we need to understand better what sustains child labour and how and why it ended in industrial and in many of the newly industrialising countries.

"The government", a senior Indian education official told me, "should not force poor parents to sent their children to school when it cannot provide employment for all adults. Children are an economic asset to the poor. The income they bring in and the work they do may be small, but parents close to subsistence need their help." Before analysing this widely held view, let us first report on the views of education and child labour expressed by some of India's children.

Children's Views

Late one evening I met with a class of 25 girls in a one-room schoolhouse in a village 30 kilometres from Pune. They were all daughters of ex-untouchables and low-caste families who spent their days at home doing household work, and their evenings in a non-formal education programme, one intended for children who do not attend the regular primary school. The children, aged nine to 13, were in the class from seven to nine in the evening, where they played and sang, were taught reading and numeracy, and were given some instructions in basic health and science. The children showed me a simple scientific experiment they had learned and answered my questions about germs. The teacher, a local woman, was paid by the Institute of Education in Pune, a non-governmental research and training organisation, which also provided the class with some rudimentary educational materials. The class was one of several experimental programmes run by the institute headed by Chitra Naik, a well known educator.

One by one each of the girls answered my questions. What were their names and ages? What did they do during the day? What did their parents do? Had they ever been to school and for how long? The children were remarkably articulate. Half of the children had been to school for one year or less. A few had completed two years of school. Only one girl had completed the third standard. None were literate before coming to the non-formal education classes, including the one girl who had completed the third standard. A few of the children worked for wages, but most were at home helping their mothers. They looked after their younger siblings – almost all were the eldest daughters; they fetched water and firewood and cared for the cattle. Since their mothers often worked, many of the children prepared the meals for the entire family.

I asked the class whether they would have liked to remain in school. All but two girls raised their hands. The two explained that they had done so badly learning to read that they didn't want to remain in school, but the others said they left school at the request of their mothers. I asked the girls if they would keep their own daughters in school. All of them raised their hands. "But what would you do", I asked, "if you had to work and needed your eldest daughter to take care of your younger children?" "I would send my babies to my mother-in-law", said one girl. "We could have a creche," said another, "and we could have someone watch over all the children." "Who would take care of the cattle?" I asked. "We could bring the cattle together", another girl replied, "and hire someone to look after them". The girls clearly did not regard their parents' decision about their schooling as choiceless.

These girls had a clearer vision of what was best for themselves and what was possible in their own lives than I had heard expressed by India's educated classes and by Indian policy-makers. The children all thought it possible to attend school if only their parents would send them. Then why isn't education made compulsory?

Indian Government Policies

There is an unspoken consensus among India's political leaders that education should not be made compulsory since parents should have the right to use or sell the labour of their children. No political party in power, including the governments of Indira Gandhi, Rajiv Gandhi, or the government led by Narasimha Rao, has introduced legislation to make school compulsory. The prime minister continues to emphasise the importance of adult literacy programmes and non-formal education, but not compulsory primary school education. Nor have any of the state governments made education compulsory,* including the communist government of West Bengal. Moreover, no political party has called for banning child labour.

After independence the Indian government chose not to reverse British colonial education policy with respect to primary school education. In contrast with the countries of Europe and many in Asia, the idea of compulsory education was not firmly planted in either India or Pakistan. In 1882 several Indian and British officials argued for introducing compulsory education before the Indian Education Commission, but the proposal was never seriously considered. Shortly before the first world war, Gopal Krishna Gokhale, then president of the Indian National Congress, took up the issue in the central legislature in New Delhi. He introduced a private bill proposing that local bodies be authorised to introduce compulsory education in their area. The bill was widely circulated and while it received support from leaders of the Indian National Congress and the Muslim League, a majority of the members of the central legislature, most officials, and representatives of the princely states were opposed. The government regarded the proposal as utopian on financial and administrative grounds. In 1918, Vithalbhai Patel introduced a bill in the Bombay legislative council permitting municipal areas of the state to make education compulsory. The bill was passed and thereafter other states under British rule passed similar laws. These laws remain in force today, both in India and Pakistan, but it should be noted that all these laws *permit* but do not *require* local authorities to make education compulsory. The laws are enabling legislation, modelled after an 1871 act of the British parliament which was superseded a decade later by a parliamentary act requiring local authorities to make education compulsory. Since these acts are called compulsory education laws many Indian officials, even including members of education departments and ministries, mistakenly believe that education is compulsory, only that the legislation is not enforced.

Many officials similarly believe that child labour is illegal, only that these laws are also not properly enforced. In both India and

Pakistan child labour laws are based on British laws passed in the 1920s and 1930s which restricted the employment of children in selected sectors of the economy, e g, mining, shipping, and in large industrial factories, but otherwise permitted children of any age to work in agriculture, small-scale industries, and in the service sector. Moreover, since primary school education has been voluntary, parents remain free to remove their children from school and enter them into the labour force. The Indian government spends less on primary education than most other Asian countries and puts a disproportionate share of its educational resources into higher education, a political decision which benefited the middle classes while leaving the rural and urban poor educationally impoverished.

In fact, Indian government policy has promoted the employment of children. Industries subcontract to so-called family-owned workshops which are permitted to employ child labour. There is no statutory protection for children in factories that employ fewer than 10 people; the government policy of supporting the small-scale sector promotes the employment of children in unregulated hazardous work. Through its centres for training children as weavers for the carpet industry, the government competes with schools to attract children. Government officials are frank in saying that child labour helps to sustain otherwise uneconomic small-scale industries and keeps costs down so that the carpet, gem, and brassware industries can expand their exports.

A critical empirical examination of the evidence related to these widely held views can be founded in a recent study by an Indian scholar, Neera Burra, based upon intensive field investigations of five industries – gems, brassware, glass, pottery, and locks. In the pottery industry, she reports, children have displaced adults in the labour market. She writes, "Employers prefer child labour because it is cheaper than adult labour and because children, unlike adults, cannot question the treatment meted out to them. Evidence indicates that the child's wage...is a third to a half that of adults for the same output, with the child working for as many, if not more, hours than the adults." Burra reports that in the industries she surveyed children were engaged in work that is unsafe and unhealthy. In the lock industry children work with potassium cyanide, trisodium phosphate, sodium silicate, hydrochloric acid, and sulphuric acid. They inhale noxious fumes, are exposed to electric shocks, and suffer from tuberculosis, bronchitis, asthma and other diseases. In the brassware industry children work at high-temperature furnaces and inhale the dust produced in polishing; in pottery children suffer from respiratory illness from inhaling clay dust; the glass industry is particularly hazardous, since children carry molten glass and work around furnaces with intense heat. Even when children are not employed in hazardous work, the environment itself often puts children at risk. Household employment is not normally dangerous, but children as domestic servants are often beaten and sexually abused and children employed in dhabas are at the mercy of their employers.

Officials and employers argue that children serve as apprentices, acquiring needed skills for adult employment, contributing to the income of their families, and are mainly employed as family labour. They further argue that the employment of children sustains India's traditional craft-oriented industries and that child labour makes India's exports more competitive. The studies by Burra and others do not support these arguments. Indeed, in the lock industry in Aligarh and in the brassware industry in Moradabad children do not work side by side with their parents and in a number of industries (pottery, for example) there is evidence that children are employed in regions where there is a high level of adult unemployment.

Children in the labour force can acquire special skills. In the lock industry, for example, children work on buffing machines, electroplating, spray painting, filing components, making springs, assembling and packing locks. But no skills are acquired that could not be learned as easily by older children and young adults, that is by postponing the entrance of children into the labour force until the ages of 14 or older. Early entrance into the labour force has sometimes shortened the working lives of young people who, now adults, are too ill to remain in the labour force. Adults in Firozabad who used to work around the furnaces in the glass industry as children report that they send their own children into the labour force since they themselves are now physically unable to work.

Child labour is on the increase in export industries such as gems, brassware and carpets. Owners of the small shops and government officials argue that the expansion of these exports is made possible through the employment of children. Nimble little fingers, they say, enable children to do work that adults cannot readily do or do as well. Children can produce a greater number of knots in the weaving of carpets than can adults. They can carry molten lead near furnaces, under conditions that adults would find intolerable. They can work with their eyes 10 inches from machines using silicon for polishing gems, tasks that need diligence, dexterity and speed rather than physical strength.

Without children in the labour force, officials say, these tasks would not be performed as well. And since children are paid less than adults they are able to produce goods at a lower costs. As a result of these lower costs, many industries are able to compete in world markets. Without child labour, it is argued, carpets and handloom textiles might be replaced by machine-made products, bidis (hand-made cigarettes) would give way to factory-made cigarettes, and matches and firecrackers would be made by multinational corporations. There is little evidence to support these claims, though they are widely held to be true. In many industries the contribution of labour costs to the total costs of production is small; moreover, the availability of low skilled low-wage children has reduced the incentives of businessmen (in the brassware industry, for example, and in footwear) to acquire the sophisticated technologies that would enable them to make export-quality products comparable to those of Bangkok.

Child labour has kept girls out of school. Employers are often particularly eager to employ young girls, since they are paid less than boys and are often employed at younger ages. In the Sivakasi match industry, most of the child workers are girls below the age of 14, and their wages are well below the agricultural wages in the region. In other industries, in coir, gems, bidis, locks, carpets and embroidery, girls are paid less than boys and are employed in jobs requiring no schooling. The result is the female attendance in primary schools is low and female literacy remains low. As noted, in 1991 the percentage of adult female literates to the total female population remained under 40 per cent in Andhra Pradesh (33.7 per cent), Orissa (34.4 per cent), Madhya Pradesh (28.4 per cent), Uttar Pradesh (26.0 per cent), Bihar (23.1 per cent), Rajasthan (20.8 per cent) and Arunachal Pradesh (29.4 per cent), all states with a high incidence of female child labour. The pattern is self-perpetuating. Uneducated parents send their children to work, and in turn the uneducated daughters as adults then send their children to work.

Apart from employers, India's middle classes also gain from these policies. For nearly a half century the Indian government has given a higher budgetary priority to the expansion of higher education than to mass elementary education. Compared to many other developing countries India spends a smaller proportion of its GNP on elementary education and a greater proportion on higher education. Subsidies are provided to private elementary schools and to elite public schools for civil servants and the military. Education, said the planners, was 'an investment in human resources', essential to economic growth, but to the planners that meant an expenditure of funds on the education of the middle classes who could be employed by the government and in the public and private sector firms that were protected against international competition.

Middle class families employ children from the lower classes to work in the kitchen and to serve as sweepers. Children are also employed in many offices, providing tea for clerks and even for academics in research institutes! Many middle class Indians have a conception of 'children's work' – or more

precisely, poor children's work – as both a phase in the education of a child and as a distinctive niche in the economy. They conceptualise a distinction between the children of the poor and their own children, between children as 'hands' who must be taught to work and children as 'minds' who must be taught to learn. It is this conception that leads middle class officials to criticise India's primary schools for their failure to emphasise 'work', vocational training, and agriculture; as if the poor need to be taught how to work.

Alternative Views

Government officials in other poor countries have not shared the Indian views, neither in Japan which introduced compulsory education in 1872, not in North and South Korea, Taiwan, and the People's Republic of China, all of which made education compulsory shortly after the second world war. All of these countries introduced compulsory education when per capita incomes were low, poverty was widespread, and parents would have employed their children had they been permitted to do so. By 1910 Japan was able to ensure that 98 per cent of the six to 13 age group attended school; in 1943 Taiwan made six years of primary school education compulsory; both North and South Korea launched massive campaigns in the 1950s to get all their primary school age children into school. The People's Republic of China is another dramatic case. In 1949 only one-fourth of the children were in primary school, but by 1982 the figure was 93 per cent, with 70 per cent completing sixth grade. Sri Lanka massively expanded its primary school enrolments in the 1950s, by 1981, 90 per cent of primary school age children were in school and 70 per cent of all children completed five years of schooling. The story is similar for most of the countries of south-east Asia. Indonesia has made schooling compulsory, with the result that three-quarters of all children complete six years of schooling, female education is nearly equal to that of males, adult literacy has leaped to 82 per cent, and there has been a marked decline in child labour.

In the west too, many countries made education compulsory before the industrial revolution. In 1524 Luther sent a letter to German municipalities saying it was their duty to provide schools and the duty of parents to educate their children. In 1647 the colony of Massachusetts passed a law compelling local authorities to set up compulsory elementary schools. In 1723 Sweden decreed that parents and guardians who failed to send their children to school would be fined.

The motives for making education compulsory were diverse. Compulsory education was introduced earliest in Protestant countries, where there was a widespread belief in the importance of reading the Bible. Communist countries, irrespective of their stage of economic development, introduced compulsory education as an instrument for socialising the young into the new ideology. In Prussia military conscription made the state keen to improve the health and education of children. In France anti-clericalism was a major factor in creating a state-run secular education system. In Meiji Japan the elite regarded mass education as both an instrument for enhancing Japan's capacity to compete abroad and for inculcating loyalty to the state.

There is no single economic or political determinant, either among the early industrialised countries or among the contemporary developing countries where education has been made compulsory. Many countries successfully made primary school education compulsory and universal when per capita incomes were low, poverty was widespread, and parents would have employed their children had they been permitted to do so. Nor can it be argued, as some have, that the introduction of compulsory education was driven by changes in technology which required more skilled, educated workers. More to the point, the end of child labour and illiteracy in the workforce enabled industries to employ technologies that required higher skills.

There are two other generalisations that can be drawn these diverse stories. One is that in each of these countries the notion developed that education should not be regarded merely as a right granted by the state, but as a *duty*, imposed by the state. When education is made a duty, parents, irrespective of their economic circumstances and beliefs, are required by law to send their children to school. It is the legal obligation of the state to provide an adequate number of schools, appropriately situated, and to ensure that no child fails to attend school. Adam Smith wrote that "for a very small expense [sic] the public can facilitate, can encourage, and can even *impose* [emphasis added] upon almost the whole body of the people, the necessity of acquiring those most essential parts of education". John Stuart Mill wrote that the state should compel the education of "every human being who is born its citizen" and that the state "ought not leave the choice to accept or not to accept education in the hands of parents".

This shift from rights to duties is a profound one in the history of the relationship between children and the state. Theologians, with their vision of God-fearing, law-abiding, moral youth; educators, with their vision of schools transmitting the enlightenment values of secularism, rationalism, cosmopolitanism, and individualism; and revolutionaries, with their romantic vision of social transformation, provided much of the driving force behind the idea of compulsory mass education. Theologies and ideologies were critical determinants. Had the early advocates of compulsory education written the United Nations Convention on the Rights of the Child, they might well have called it the Convention on the Rights of the Child *and the Duties of the State*.

The second generalisation is that the establishment of compulsory education was a necessary condition for the reduction and abolition of child labour. Without compulsory education governments would not have been able to enforce child labour laws. In one country after another the phased extension of the age of compulsory education went hand-in-hand with a phased extension of restrictions on the employment of children. If the school-leaving age is lower than the age of admission to employment, children are likely illegally to seek employment, and the enforcement of child labour laws is rendered more difficult. It is administratively easier to monitor school attendance than to monitor children in the work place, especially when there are thousands and tens of thousands of employees, and easier to force parents to send their children to school than to force employers not to hire children. No country has successfully ended child labour without first making education compulsory. So long as children are free not to attend school, they will enter the labour force.

Had it followed the route of those countries whose governments believed in the importance of mass education, India today would have a higher literacy rate, a lower incidence of child labour, and, most probably, a greater reduction in the fertility rates since children would no longer be seen as financial assets to the family. But Indian policy-makers continue to be mired in a set of views that preclude their taking the necessary steps to get children into school and out of the labour force; and they pursue a set of industrial policies that promote the employment of children in the small-scale sector. Moreover, these views are so widely shared in India that no political party of the left or right, no trade union, no religious organisation, and not even the educational establishment has been pressing for policy changes. Even officials who recognise that regular school attendance is desirable believe that the responsibility of sending children to school should be with parents, not with the state. Policy-makers continue to argue that child labour cannot be eliminated while there is poverty. Instead government programmes have worked around the fringes of the problem; by promoting adult literacy campaigns, providing non-formal education to working children, and providing free school lunches to encourage children to remain in school.

Neither the central nor the state governments have been willing to do what has been done historically by every developed and now by many developing countries: declare that all children ages six to 12 or 14 must attend school, that parents, no matter how

needy, will not be permitted to remove their children from school, that school attendance will be enforced by local authorities, and that the government will be obligated to locate a primary school within reasonable distance of all school-age children. Only through such a policy will it be possible to make elementary education universal, to raise India's literacy rate to that of other large developing countries within a generation, and to bring an end to child labour.

New Directions

There is a growing awareness in India of the country's failure to address the needs of children. Indian officials are under international pressure to eliminate child labour. Germany and the US are considering whether to impose restrictions on the import of goods produced by children. Since child labour is illegal in western countries, governments, trade unions and consumers are becoming increasingly loath to import carpets, textiles, sporting goods and gems produced by child labour. A bill introduced in the US Senate by Senator Harkin (The Child Labour Deterrence Act) would close US markets to carpets not certified child labour-free. Even if a legislative ban is not imposed there may very well be a boycott by European and American consumers who are unwilling to buy products produced by child labour. The Indo-German Export Promotion Project (IGEP) has already targeted the carpet industry in developing countries. The German-supported Delhi-based Rugmark Foundation places its trademarks on carpets made without child labour. Dietrich Kebschull, the organisation's director, estimates that carpets with the Rugmark "will cost only 2 to 3 per cent more than other Oriental carpets, if that" (*Far Eastern Economic Review*, February 2, 1995, p 26). The foundation works closely with a group of exporters who belong to an association called the Carpet Manufacturers' Association Without Child Labour and with the Delhi-based South Asia Coalition on Child Servitude, headed by Kailash Satyarthi. "Rugmark represents years of campaigning in India, Germany and elsewhere. It's not the end of child labour, but it's a breakthrough", said Satyarthi. Pressure for action on the educational front has also come from the World Bank, which has reminded governments that poor education and poor health are barriers to economic growth, from UNICEF, which has pointed to the links between compulsory education and child labour, and from the International Labour Organisation, which through its International Programme on the Elimination of Child Labour (IPEC) has been providing funds to initiate programmes to reduce the use of child labour.

A hundred years ago, in the last decade of the 19th century, an American non-governmental organisation called the National Child Labour Committee (NCLC) conducted a series of studies of child labour in US industries. These studies – which now occupy several feet of shelf space in Harvard's Weidner library – documented the plight of America's working children. The social activists and scholars who prepared these studies described the conditions for children in textiles, cigarettes, glass, and in other industries throughout the country. The NCLC used these studies as part of its campaign to appeal to the conscience of Americans and to lobby state legislatures to extend the age of compulsory education (in 1900 education was compulsory up to age 14 in only 31 states) and to ban the employment of children. The NCLC also commissioned a freelance photographer, Lewis Hines, to photograph young children in the work place. His photos helped stir up public opinion and Congressional sentiment. Through the lobbying efforts of the NCLC state governments extended the years of compulsory schooling and introduced the system of 'working papers', employment certificates which permitted young people to work only after they had completed at least six years of schooling and were over 14 years of age. The NCLC was subsequently also instrumental in getting national legislation passed to supersede weak state government laws on child labour, though it was handicapped by the Supreme Court, which until the 1930s ruled that national child labour legislation was an unconstitutional interference with the states.

A similar campaign is now under way in India to pass stricter child labour laws and to introduce compulsory primary school education. While there is no national NGO in India comparable to the NCLC, a small band of social activists, journalists, scholars, and film-makers have been hard at work appealing to the conscience of officials and to the Indian public. Meera Nair, in a much acclaimed prize winning film, 'Salaam Bombay', poignantly portrayed the life of Bombay's street children. Smithu Kothari, Manu Kulkarni and Harbans Singh have described conditions for children in the notorious match industry in Sivakasi. Sheila Barse and Debasish Chatterji have written articles on children in the glass industry. Neera Burra, a research scholar on the staff of the International Labour Organisation, has been studying the lives of children in some of the major industries that employ children: the brassware industry in Moradabad, pottery making in Kurja, gem polishing in Jaipur, lock making in Aligarh, and glass factories in Firozabad. Articles on the plight on children have appeared in the magazines *Frontline* and *India Today*, and in India's leading dailies. A number of non-governmental organisations and public interest lawyers have also been a voice for a pro-active policy towards children. The results thus far have been modest. The government of India has declared its intention significantly to increase expenditures for primary schools in the next Five-Year Plan, though the increases in the recent budgets remain small and there has been no effort to move towards a national policy of making education compulsory. One state government, Tamil Nadu, has announced its intention to make primary education compulsory and to remove children from the match industry in the infamous town of Sivakasi, but it is too soon to assess the effectiveness of the effort. The most important impact thus far is an increase in public awareness among the middle class that child labour constitutes a problem – is even a matter of shame – for the country.

Three arguments are still widely raised in India against compulsory schooling. The first is that since existing schools are unable to meet the needs of the poor, parents should not be forced to keep their children in school. It is painfully true that India has not satisfactorily addressed the serious problems in primary education – the lack of trained and motivated teachers and the absence of adequate teaching tools, blackboards, play equipment, and books. Paradoxically, government officials justify their reluctance to make education compulsory by pointing to their own failure to improve the schools! When the state or central governments in India do decide to make primary schooling universal and compulsory they will need to take major steps to improve their quality, but to wait until governments tackle the issue of quality education before making primary education universal and compulsory is a formula – and a justification – for doing nothing.

A second objection to compulsory education is that it may be difficult to enforce. There are so many laws that are not now enforced, it is argued, why should a compulsory education law be different? Countries that have introduced compulsory education have relied upon local officials, such as teachers, members of school boards, members of the local government, or appointed officials, to visit the homes of parents who have removed their children from school to inform them that school attendance is mandatory. In Indonesia, funds have been made available to assist parents who desperately need the income or labour of their children (widows, for example). Told that schooling is compulsory, few parents are likely to challenge the authorities by insisting that they be allowed to send their six-, seven- or eight-year old children to work instead. In countries that have made education compulsory, education has soon become a norm in the local community, a norm more often enforced by community pressures than by authorities. Such a norm is already in place in Kerala and in Sri Lanka, where primary school education is nearly universal and drop-out rates are low.

The third, and perhaps the most persistent, argument used in official circles in India, is that child labour cannot be tackled without first addressing the issue of poverty. As we have already noted, those who put forward this view argue that the country must wait until per capita incomes have risen and poverty has been reduced; only then will families remove their children from the labour force and place them in schools. Poor families, they say, must not be denied even the small income that children bring into the household. These arguments have been rejected by most other Asian countries, whose leaders have regarded mass education as an instrument for the reduction of poverty rather than as a solution to low household income.

Next Steps

The issues of child labour and compulsory education are not yet on the political agenda in India. It was not an issue in any of the state assembly elections in 1994 or early 1995; no political party has made policies toward children part of its political platform; no major candidates for public office have spoken up on the subject. The then prime minister Narasimha Rao said little more than that the government intended to spend more on education, and he was publicly defensive on the issue of compulsory education. The issue is not on India's political radar screen.

International pressure through the boycott of goods produced by child labour is likely to have a limited impact. The Indian government has rarely been responsive to international pressures on most issues – such as Kashmir or nuclear proliferation, or earlier, on foreign investment. In this intensely nationalist country reactions to international pressures are often perverse. However, to the extent that individual manufacturers are persuaded that their products will not be sold abroad unless they can demonstrate that they do not employ child labour, international market pressures can have an impact. The practical effects, however, are likely to be modest, since children pushed out of one industry can often readily move to another. In any event only a fraction of India's child labourers are employed in export-oriented industries. A ban by importers of goods produced by children, even if there were an effective way of labelling goods, would have only a marginal impact on the total employment of children; other sectors of the economy are expanding rapidly enough to meet the supply of child labour. In the next few years we may see an expansion of agricultural produce both for local consumption and for exports and with it a growth in food processing industries that employ children. Wherever economic expansion occurs there will be a niche for children. Still, as we shall see, international pressures or, more accurately, international incentives, should not be dismissed.

Some Indian organisations are pressing for changes in the Child Labour Prohibition and Regulation Act to ban the employment of all children under the age of 14. A change in the legislation would be helpful, since the moral as well as the legal sanctions implied by a ban may deter some employers from hiring children, but those who choose not to obey will find it easy to evade enforcement. India's social workers report that the existing act is not enforced, particularly those provisions that restrict the employment of children in listed hazardous occupations. In the event of a total ban, employers of children could readily bribe officials in the state departments of labour. The lower levels of the civil service in India are notoriously corruptible. As a practical matter the staff required minimally to enforce a ban on child labour would be enormous, given the number of workshops, restaurants, landowners and households employing children. So long as the numbers of children in the labour force are as high as they are, a legal ban on employment, though helpful, is likely to have only a limited impact on child labour.

How, then, can reform be made to happen? How can India's state and local governments be persuaded to make education compulsory, to enforce primary schooling, and to move toward the removal of children from the labour force through the gradual expansion and enforcement of child labour laws? More broadly, how can the country as a whole be persuaded that India's children ought to attend school, that literacy and numeracy are vital skills for the entire population, and that the education of girls can have far-reaching consequences for national health and for population growth? I should like to suggest four courses of action.

First, there is a need for a considerable expansion in public and official knowledge on the magnitude and consequences of child labour in India. Much of the public discussion presently takes place in a knowledge vacuum, and worse, is based on misinformation. Consider how little we know on the following questions: how many children are in the labour force? What contribution do children make to household income? In families with child workers, are adult members of the family unemployed and, in effect, therefore, displaced by their own children? How widespread is adult unemployment in areas in which children are working? How many children live in single parent families, with a widowed mother dependent upon the labour of her children? What wages are paid to children and how do these wages compare with those paid to adults in the same industry performing similar work? At what age do children enter the labour force? What is the incidence of female child employment? How many years of schooling, if any, do children have before they enter the labour force? How many children in the labour force are homeless or live in the household of their employers rather than at home? How many children are employed in the household sector by their own parents, or do children largely work for employers outside the household? How many children are subsequently discarded from the labour force because of disabilities incurred as a result of their employment? What is the incidence of bonded labour among children?

The answers to these questions could be obtained by national household studies. This kind of micro information would enable state and local governments to formulate appropriate policies, dispel a great deal of misinformation among government officials, and, as part of a public information campaign, would strengthen the capacity of organised groups to press for policy changes. In addition to household studies, research on specific industries that employ children would also contribute both to public understanding and to public policies. Many officials continue to believe that some of their export industries are made competitive by the employment of children, though no data are available on the relationship of wages to overall costs and whether a decline in the employment of children would weaken or enhance the competitive capacity of producers. Would producers lose if children under the age of 14 were removed from the labour force and replaced either by adults or by new technologies?

Secondly, policy promotion by India's non-governmental organisations is still in a rudimentary form. India's NGOs have, in the main, turned their attention to working with their clients rather than in organising themselves as political lobbies to seek legislative and programmatic changes. Few NGOs have decided what it is that they want governments to do. Among the policy issues that need to be addressed are these: the establishment of compulsory education in selected cities and districts; the creation of programmes to eliminate the employment of children in selected local industries; the establishment of pension schemes for widows to enable their children to attend school; and the creation of improved local enforcement mechanisms for child labour laws and compulsory education programmes.

NGOs can also play a more active role within local communities in dealing with these issues, especially by helping to establish community-based parent/teachers associations to promote school attendance and to reduce the number of drop-outs. NGOs can promote the establishment of funds for individual schools for the improvement of school facilities: play equipment, volley ball courts, blackboards, books for school libraries, the purchase of calculators, computers, television sets and school uniforms, and the establishment of school lunch programmes and school-based inoculation programmes. In urban areas funds can be raised through soliciting local businesses; elsewhere, support will have to be sought from village, taluka and district

panchayats, and from district education offices. In India's highly decentralised system it is hard to see how there can be a significant improvement in the quality of local schools or in the effective enforcement of compulsory education laws or child labour laws without substantial involvement from the local communities. India's numerous NGOs can be a pivotal force in local community organisation.

Third, foreign investors can have a non-trivial impact on the employment of children by ensuring that the firms with which they collaborate and from which they purchase do not subcontract with suppliers who employ children. Reebok, Liz Claiborne and other firms have refused to purchase from suppliers who indirectly employ children. Levi Strauss requires that its suppliers (in 50 countries) agree to adopt a labour code that includes a prohibition against the employment of children under 14 In effect these firms are choosing to reward those companies that maintain acceptable labour standards. As US firms in South Africa agreed to conform to the Sullivan principles, so too should companies agree to sign on to a comparable set of principles with respect to the employment of children and to other minimum labour standards. Labour attaches in US embassies could provide investors with information that would alert them to producers and suppliers employing children. Boycotts and threats against US firms or Indian firms are less likely to produce results than an active campaign to seek producers who do not employ children and who can demonstrate that the older children they employ (those over the age of 14) have acceptable working conditions.

Finally, though it is easy to be cynical about the establishment of international norms with respect to working conditions, they have an important role to play. There are already in place international norms concerning the employment of children, especially those below the age of 14. India has signed the UN Convention on the Rights of the Child which contains provisions (Articles 32 and 36) calling for the banning of child labour and (Article 28A) calling for the establishment of universal compulsory primary education.

While international conferences on the treatment of children and the requirement that signatories to the UN Convention regularly report on their progress are important in altering norms, the primary need is to create in India a network of institutions that regard these norms as applicable to local conditions India has an increasingly vigorous civil society, but as we have noted earlier few groups pay attention to the condition of children. The ministry of human resources has shown little interest in promoting mass education or reforming the inadequate primary school system. Teachers' unions are more concerned with wages, transfers and perks than with the education system. Trade unions have focused on preventing privatisation of the public sector and preventing the creation of an exit policy, not with restricting the employment of children. Employers have no interest in ending child labour since large firms subcontract to the small-scale industries to obtain goods at lower costs, and small manufacturers are looking for low-cost, pliable, and easily dismissable labour. The actors that have mattered elsewhere are not sufficiently engaged in India.

As is well known, in recent years there has been a growth in international civil society, that is in non-governmental institutions that support one another across international boundaries and form coalitions to influence their respective governments and international institutions. The most effective network thus far is in the area of the environment. We do not yet have similar linkages with respect to labour standards, particularly in the employment and education of children. An important question, therefore, is whether unions in the west can persuade union officials in India that child labour in India is as detrimental to adult employment as it has proved elsewhere in the world, and that the promotion of compulsory education and the removal of children from the labour force will result in an increase in jobs for adults. Can teachers' unions in India be persuaded by teachers' unions elsewhere that their status in the community will be enhanced if they play a pro-active role in promoting better quality primary school education and in ensuring that all children remain in the school system? Can foreign investors influence local Indian manufacturers to subcontract only to suppliers with acceptable labour standards? Can child welfare groups in the west work with their counterparts in India to develop community-based programmes? These non-governmental networks, rather than government to government programmes, may be the most effective means for promoting the international norms that are now still largely rhetorical.

Conclusion

With 90 million of its children outside the educational system, India clearly has a long way to go to build a mass human resource base that can contribute to its present efforts to move from the state-led autarchic industrialisation policy to a market-oriented model in which India competes in a global economy. Though India has begun its reform process by reducing tariffs, opening its market to imports and to foreign private investment, permitting market exchange rates, and eliminating licensing and price controls, the country still has a considerable way to go before it has an economy capable of effective competition. The government has not moved toward the privatisation of the public sector nor developed an exit policy that would enable new investors to expand employment without fear that the government will prevent them from dismissing workers. The middle classes support reforms, but since they have been shielded from the world economy by the protective apparatus of the state that has been in place for more than 40 years they remain reluctant to support all the measures necessary to bring the country into the global economy. Least of all do they show signs of embracing the idea that a mass human resource base is, in the long run, essential to create the literate labour force necessary for a competitive economy.

On educating its children India remains so behind the rest of Asia that it will take a major infusion of resources and political leadership to catch up. Tariffs can be lowered quickly, taxes reformed, and deregulations can easily be put in place, but building a national primary school system, making education compulsory, and removing millions of children from the labour force will take time. It will also require a level of commitment from government and from groups throughout the society that India does not yet have. The argument of this paper, almost too banal to assert, is that change has to come from within India and that the outside world can play only a limited role. India adopted its new economic policies not because Indian intellectuals and officials saw they were falling behind east Asia, but rather because of an internal financial and balance of payments crisis that persuaded them that the existing state-led industrialisation policies had put the country into near-bankruptcy. Indians have not yet realised that they have also paid a heavy price for failing to bring half of the country's children out of the labour force and into the educational system. Deep class/caste divisions have been barriers to the development of a national drive for mass education by those who have made it to the upper strata; the political tendency in India has been to pull up the drawbridge once one has made it across, rather than to lend a helping hand to those who have been left behind. As the economy opens and employment opportunities grow with the expansion of the country's consumer industries, the governing middle class may recognise that the country needs a more literate population and therefore must invest in its children. But it will take a major coalition of locally based groups, the active participation of the media, the contribution of researchers and the information they disseminate, the support of investors, educators, social activists, and trade unionists abroad, and international donor agencies to get India to address the way it treats the children of the poor.

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Women and Work

From Housewifisation to Androgyny

Susan Visvanathan

Unlike hermaphroditism, which is a lack of physical differentiation, or bisexuality, which is a lack of clarity in gender identification, androgyny expresses a conscious interplay of masculine and feminine aspects of the individual psyche. The article attempts to understand androgyny through the works of Philomena-Marie when she is actively engaged in mobilising the Kerala fisherfolk against the encroachment of the big trawlers.

I

CAROLYN MERCHANT, Claudia Von Werlhoff, Maria Mies and Ivan Illich have argued forcefully that capitalism has rendered woman a captive of the house. The labour of housewives goes unnoticed as shadow work, they are not seen to be part of the economy.[1]

These authors have argued that in capitalism, women were seen as belonging to the domain of nature, and were to be broken, tamed, cultivated and civilised. Women who experiment with healing, agriculture, emotion and war were punished. Science and exploration were male domains; women could not innovate. Notions of order were defined for them, the subduing of women's nature was the greatest expression of the hierarchy of gender. The housewife is the transformation of the creative energies of women into one systematic type of labourer, one who is concerned primarily with reproduction, i e, the birth of new members for the labour force, and their sustenance and nature. This labour does not create surplus or capital, it cannot be sold on the labour market. It is, as one feminist has argued, love and responsibility.[2] These are not in capitalist patriarchal ideology things of value, for value only arises from profit in the market. So the histories of men are visible (Joan of Arc and the Slave Queen dress as men) while women constitute simply, a sex.

In a plea for return to motherhood and work, feminists like Sylvia Hewlett tried to handle the question of what gender neutrality actually entailed. While women enter the professional world (or the labour market) on an ostensibly equal footing with men, the domestic space still represented traditional hierarchies and differences. Women bore children, cooked and cleaned, while men controlled property, women and children. Both men and women went out to work, but women's earning were a 'second' salary. Their official roles were continuing in a gender-defined way, but their commitment to the codes of work had to be neutral. Their actual involvement in the powerful roles in a society were seen to be negligible. What one required as a concomitant to gender neutrality of social roles at the work space, was gender neutrality in the domestic space. This would involve the socialisation of young children, so that work allocation is not gender specific. Boys as well as girls must be trained to cook, clean, wash, shop, rear children and earn. This was work, not 'women's' or 'men's', but work that needed to be done in a shared and reciprocal way.

Why were women alienated from the control over productive processes although it was they who sustained the manpower required for the market? Women were seen to be objects of nature to be dominated rather than worthy of egalitarian interaction. They were the bearers of children, they made things grow, they understood the cycles of nature within their own bodies. By excluding women, men externalised that from which they themselves were born, that which had to be a part of them.

Michelle Rosaldo (1974) underlines the fact that in most societies women may have power, but men usually have authority. Authority becomes a veil which separates and distances men so that they can control interactions as they wish "...by avoiding certain sorts of intimacy and unmediated involvement they can develop an image and mantle of integrity and worth". The 'natural' attributes of womanliness (ascribed status) is contrasted to the achieved status of 'becoming a man'. Because women are excluded from the domains of rationality and power by cultural stereotyping, they appear as other. Women's status, Rosaldo argues is achieved from their stage in a life cycle, from their biological function, and in particular from their sexual or biological ties to particular men. For Rosaldo, the two extremes of this position can be seen in the witch, who sleeps with the devil, and the nun who is the bride of God.

Carolyn Merchant (1979) shows how western science domesticated nature (and women) through the questions and methods of science. The earth was transformed from the image of a nurturing mother into a source and potential for economic interest. The disorderly elements of female nature would be subjugated, and women became passive dependents in both production and reproduction. Even today, the exclusion of women from knowledge about their bodies, their isolation in labour as if pain was demeaning and infectious is representative of a scientific objectivity as opposed to empathy and subjectivity as experienced in traditional assistance at child birth.

Nature and culture in such a perspective were no longer categories in relationship, but were now dual, external, divided and antagonistic. It was a fair description of the relationship between the sexes. Women, being identified with nature, became associated with animality, just as were indigenous people in the colonies. Thus women, the enslaved and animals all belonged to one class. Hannah Arendt (1958) writes that women and slaves were homologous because they were hidden away, belonged to someone or another, and their life was 'laborious' and devoted to bodily function. Arendt argued that the chief function of 'labour' is the production of life and therefore labour is associated with procreation. However, the least durable are those things which are needed for consumption, for life itself. If not used immediately by men they perish. Therefore, the daily labour of women which contributed to subsistence was not inscribed in memory. Arendt said that work – what men did – was different, for it transformed things from matter into material, from nature into culture, and was associated with the hands, with skill and knowledge, rather than with the body.

Why then is labour, life generating as it is, associated with passivity? Carolyn Merchant for the history of the west, and Leela Dube (1986) for India, have shown that women are associated with the earth who bears and nourishes the seed, which is the vital, life generating active principle. Corporeality, substance and matter thus, in patriarchal societies derive from the female – therefore also putrefaction and mortality, but quickness, the mind, the soul, cerebrality is passed through the male. The passivity of women is continually reconfirmed through men's language. Dube argues that a woman is alienated from her productive resources (like land, she belongs to someone) and has no control over her offspring. Illich (1982) would call gender neutrality fatal to the women's issue. What was required was complementarity, argument, conversation and understanding: in Buber's (1970) terms the 'I-it' relationship characterising the subject as masculine and dominant. The object as female and passive should be substituted for an I-Thou or I-You relationship whose language is tempered by dialogue. As Anna Kingsford, one of the early

feminists, maintained that women when kept back from articulating and achieving dialogue were deformed, and in such a case, the men lost out too, for one sex cannot be handicapped without the other suffering [cited in Maitland 1896].

Virginia Woolf's novels became an interesting exercise in articulating the theme of the suppression of women's work capacities In *The Voyage Out*, Rachael's passion and proficiency in music while acknowledged may not be professionally used. Hewet, the most sensitive and gentle of men, believes that Rachael becomes "less desirable as her brain began to work". Hewet argues that women see men as horses do. "They see us three times as big as we are or they'd never obey us". In the end, Rachael must die – she represented the classic constraint upon individuality and being that masculinist societies imposed upon their women: talented and unprofessional, dying in the small cabin spaces that society provided for them. *A Room of One's Own* (1945) became a symbol of private space and autonomy, where women could find their own sense of being, write a new history of actions and events. I will not go into an analysis of Woolf's work here, except to mention that in *Orlando* Woolf destroyed this conception of women's being as conventional, peaceful and consensually embedded in patriarchy. She substituted a male-female figure who so light-heartedly, so brilliantly destroyed and ravaged all notions of women's being, transformed roles and rules, work and custom.

Woolf's work explored two central ideas about women and consciousness. One was the idea of androgyny. In *A Room of One's Own*, she playfully and poignantly sketched a mythical account of Shakespeare's sister Judith, as talented as her sibling, but fated to die and remain anonymous for she was a mere woman. She also spoke of the only possible way for women's emancipation – it was a plan for the soul. "In each of us two powers preside, one male, one female, and in the man's brain, the man predominates over the women" [Woolf 1945]. Where there was harmony between the two forces, spiritual co-operation, a fusion, the greatest creativity is possible. While Woolf herself was housewifised and sanatorium-ised, through the character of Septimis Smith, in the novel *Mrs Dalloway*, she tried to show that God and nature speak in many voices and some have the gift to hear and understand. Her portrayal of Orlando became a powerful exegesis of the concept of androgyny.

June Singer (1973) in her valuable interpretation of Jung's work argues that there is a natural biological opposition between men and women which is the basis of creativity. She develops Jung's notion of the anima and animus to underline that every man has a feminine side, every woman has a masculine side. which are rendered unconscious by culture. The repression of the anima (in men) and the animus (in women) creates both the longing for the other, as well as the awe. fear and incomprehensibility associated with the other [Singer 1973:234].

The cultural stereotyping of emotions would then possibly end. Jesus, for instance, as a man, had no dilemmas about articulating a theory of love and care. Interestingly, though, C F Andrews who imitated Jesus in many ways, was thought to be effeminate by some. June Singer writes, "I think it must have been the anima of Christ that urged him to seek out that one lost sheep" (1973:234).

Further, Singer writes, "unless we are partners with that contrasexual side of our nates, the soul that leads us to our own depths, we cannot become full and independent partners with a beloved person in the world outside" (1973:268). It allows us identification with others and what Jung called the self.

In her later work *Androgyny*, Singer distinguishes between various terms in order to define what androgyny really is. Neither hermaphroditism, which is a lack of physical differentiation, nor bisexuality which is a lack of clarity in gender identification, the Jungian concept of androgyny expresses 'a natural unforced and uninhibited (male of female) sexuality'. Yet, neither tends to extremes. Men do not need to exude machismo, or women to pretend a naive and dependent character. "Excessively polarised personality types" according to her thrive in cultures which demand repression of natural tendencies. Androgynous individuals lift these repression "not in order to prepare a way of living out sexual impulses so much as in order to permit what has been repressed to return and to be reintegrated into conscious awareness" (1977:19). Consider Woolf's classic experience of an androgynous state, which Charissa Dalloway feels, "a match burning in a crocus, an inner meaning almost expressed". It is a revelation which allows her to "then feel what men felt".[3] The androgyne consciously accepts the interplay of the masculine and feminine aspects of the individual psyche [Singer 1977:21].

In a stunning critique, 'Against Androgyny' Jean Bethke Elshtain (1987) demolishes arguments in favour of the concept showing how androgyny in feminist discourse has removed the mythic frames of the term. She believes that the presence of difference within the human frame has always been a cause of vexation (!) but that in the feminist discourse on androgyny, the fused body disappears. I think Jung's basic contribution is to reorganise the body in terms of the conscious and the unconscious which Singer celebrates and Elshtain completely ignores.

II

I will now look at a specific case in order to understand how androgyny is a useful exercise for understanding women and creative work. I take the specific case of a woman, a Christian nun called Philomena-Marie who led the fisher people's struggle in Kerala in 1984. This has been dealt with elsewhere [Visvanathan 1994] and I provide the bare outline.

In Kerala, the fisherfolk's struggle against capitalists ravaging of the sea has drawn tremendous strength from Christianity. (Some of Jesus' best friends were after all fishermen – Peter, for instance, whom we know as Cephas.) Most of its current leaders have church background, though there are internal contradictions. The struggle is against the capitalists and their trawlers which ravage the sea, over-fishing the waters, using destructive purse-seine and trawl nets without any regard for spawning seasons or ecological balance In this sense, the sea is merely a commodity base. The fisher people contest this indiscriminate fishing and have been ceaselessly organising protests, without much success.

Philomena-Marie is outstanding in this struggle for her sheer insistence to martyr herself for the cause. She took on the state, the capitalists, the church establishment. She was jailed in the summer of 1984, and soon after, began her 23-day fast.

After studying the participation of the radical members of the clergy in a trade union movement, the bishops of Kerala resolved that fast unto death was not permissible as was participation in protests culminating in violence. The Christian community was warned against supporting radical slogans, and dangers to their faith.

Philomena-Marie was forced to call off her fast, but she never lost her will to help the fisherpeople, to lead them in their agitations and to co-ordinate their work. In a speech in 1990, she said, "When human rights are trampled, no one can stay neutral. Neutrality on such occasion is equal to a crime. From the experience of the struggle we learn that justice is not given but taken by the concerted effort of the people concerned. The church by her neutrality, is supporting the existing political and economic system. When we struggled with the people, ever ready to give up our life, the bishops could see only disobedience, violence entering into politics. The boat (trawler) owners go with the blessing of the bishop. When poor people fight for their rights, they will be characterised as communists and naxalites. The church can only understand charity and distribution of bread" [cited in Visvanathan 1994]. How does one understand the power of this woman, and her active involvement in the fisherpeople's struggle? The last part of this essay looks at androgyny, celibacy and dress to understand how a woman becomes an active leader, a symbol of the fisherfolk movement which cuts across religious divides and becomes a forum for human rights and safety of the sea.

III

Philomena-Marie is a woman who has given her life to Christ. The complexity of the relationship is implicit. She is certainly one of the 'wise-virgins'. This reminds us of one of the poignant stories Jesus told: the parable which highlights the joy of women who waited for their bridegroom in a state of preparation in comparison to the anxiety and trepidation of the virgins who were disappointed because they were not ready to meet the lord (*Gospel of Mathew*, ch 25, pp 1-13). However, spiritual marriage is about the meeting of the soul, and the understanding of the self and other. The metaphor of marriage is used in order to understand the intensity of desire. But when we say 'virgin' and 'bride' we are speaking of a consummation that is yet to come. In this sense, death presents the face of virtue, for it offers the vision of resurrection and the union with the beloved.

Complexity is not in the love metaphors of religious union, for these are to be found in all societies, but in the concept of androgyny For Jung (1978), it represented fusion of characteristics associated with masculinism and feminism in such a manner that it would create the whole being. It articulated the idea, quite familiar to us now, that psychological characteristics had social and archetypical undertones, and that the development of one or the other was the basis of gender typing. How then could one use one's energies, psychic or religious in the most creative way? One sees the answer clearly in the life of Jesus. I will not consider physiognomy of Jesus because his represented face is the desired face of western heterosexual norms: he is always poignantly beautiful. But let us look at the androgyny of his nature – a child who is presented with gifts of perfume and gold, who is identified with the gentleness of pastoralism, and the careful art of carpentry, which combines both physical strength and contemplative concentration. Jesus grows up as friends of fishermen and prostitutes, rich men and tax collectors; is often with women and children; is light enough to walk on water, capable of great and ferocious anger; he weeps quite openly, teases his mother; he cannot bear pain and humiliation, and asks God, who is another form of his own self, to take away the bitter cup. Weak and defenceless as he is before his father, he is quite different at the courts. Jesus, then, cannot be stereotyped. What are the sources of his strength, his imagination (for he is always telling stories) and his courage?

Perhaps they lie in his mother from whom he is corporeally constituted, since apocryphally Joseph is only his foster father. If Jesus is physiologically and perfectly created, but in a godly way – for 'in the beginning was the word' and then 'the word became flesh' – we clearly are at a loss if we should search him merely corporeally.[4] The androgyny of his being does not question the right he has to his manhood; it only states that while being a man he could understand and empathise with women as much as with the Centurion's daughter of Lazarus, or the lepers, the blind or Zachariah, who was always so ashamed. For centuries, this empathy, this understanding of the other in the essence of his being or her being, has come down to us as the concept of love. This love however was culturally specific – it was not sexual (though the intensity of desire communicates itself in the story of Mary Magdalene) but appeared in the form of wisdom and peace. Jesus would, through the symbol of his life and death, and the visions his friends had of him, define the intensity of spiritual existence and experience.

When Philomena-Marie leads the fisherfolk, she symbolises the woman she is, a follower of Jesus, a bride of Christ. However, she also leads the fisherfolk, not because she is a woman, but because she understands the rules of parapolitics, of capitalism and profit, of the servitude of the declassed. In that sense, she does not stand in for the bride of Christ – she is an office member of the KSMTF. She understands her job, she is highly qualified in management theory, her rhetoric does not carry any of the tones of gender or religion. She could be either male or female, nun or priest, Hindu or Christian [Visvanathan 1994].

One of the problems is of understanding work which neutralises gender. In the unbridled years of feminism when women pitted themselves against male bastions, it was important to believe that same is equal to equality. Yet, in recent issues of *Feminist Review* and *Signs*,[5] some of the most poignant reviews have been about lost identity – what happened to motherhood, being and celebrating womanly selves; did being a woman mean hating the 'other'; how would one then look at complementarity and the division of labour? In a brilliant indictment of maleness and the right to die in war, Genevieve Lloyd[6] argues that heroism is for men, and in war they transcend their love of life for the rationalist ideas of justice and freedom. Women, however, it is believed, cannot overcome nature, or transcend death, because their role is to reproduce. Freedom and consciousness then are male preserves, but when a woman sacrifices her sons, then she overcomes nature and becomes a citizen (like the Spartan Mother who does not weep for slain sons, but rejoices in the victory of her country at war).

Androgyny means overcoming the cultural parameters defining a man or a woman, and raising the issue of common humanity. Work then is defined in terms of ability and interest, and the distinctions between men's work and women's work would at once be devalued. Androgyny, then, is about fearlessness, and role choices which are not biologically defined. Anthropologists are familiar with instances of role reversal which augment clearly enough the cultural reasons for demarcating work as gender specific. Androgyny is not about bisexuality or hermaphroditism. It is not about transvestism though the latter becomes an important code by which androgyny often articulates itself. One of the complexities of androgyny could be substitutability, which sociologically is not a problem when applied to role behaviour. Substitutability is usually about roles and not persons. It argues that the case for resemblance is so high in tribal society that one tribal is alike another, one factory worker is like another, though levels of skill or biographical characteristics may hugely vary.

So if Jesus is androgynous in the Jungian sense, he only articulates in his person and character true consanguinity. Biologically, we too are of cognatic descent, but socially we may be patrilineal or matrilineal in our societal and individual self-definitions. Each of us is composed of father and mother in a genetic composition that is structurally universal, except in the case of mutation. Androgyny celebrates the differences and similarities in being human.

The case of Jesus is problematic because his relationship with his father is philological while with his mother is corporeal. His father is God, but his mother only a saint. It is this cultural hierarchy that allows Tom Kocherry (another KSMTF leader) to be like Jesus, but Philomena-Marie cannot. She must remain an (androgynous) woman.

The most interesting thing about androgyny is that it does not necessitate gender neutralisation. In this context, let us look at Joan of Arc.[7] I shall draw my story from Marina Warner, Tom Keneally, Bernard Shaw, William Shakespeare, though this is a small cluster in the milky way of researches done on Joan.

Joan constantly refers to herself as the maid or the virgin. What she conveys most stridently is the preparation for consummation, the virgin sacrifice by fire. She must die so that her country may be liberated. What is significant is that Joan does not menstruate – her 'womb is dead' – therefore she cannot conceive, but conceive only the deed or word or value. In this sense Joan, Mary, the virgin mother, and Philomena-Marie are homologous. Philomena-Marie achieves the fertility and power of the word through celibacy.

The works of celibacy are well known through the lives of saints in all religious traditions, and specifically, through the life of Mahatma Gandhi. Sexual energy, in Jungian terms, is transformed into energy required for self-realisation or political battle. Celibacy, like androgyny is about the consciousness of one's own sexual identity, and the pain or glory that arises from transcending or overcoming one's biological and psychological and social drives. Joan understood this well: she was for the French a saint, the maid, the virgin. For the English, she was a whore who led a dissolute life,

lay side by side with soldiers, a transvestite who used a war to glorify herself. Most stories about Joan recount that men were afraid to touch her, that they never wanted to touch her. Her virginity, her celibacy, her virtue, her 'integrity'[8] became the symbol which a ruptured France could heal. No wonder then that celibacy and androgyny can combine, as in the case of Joan of Arc and Philomena-Marie.

Any reader of the texts of Jesus would immediately understand the *advaitic* power of 'I am the Way, the Truth and the Life'. It is, as Ivan Illich says, "'I is never gendered' because I is from the oral tradition" [Cayley 1992]. The listener knows immediately from the voice what the gender of the speaker is. In this sense, Christ's sayings do become patriarchally defined. Thus, Philomena-Marie knows that she can be a friend of the fisherpeople as much as Jesus. But established patriarchal conventions will not allow her to take the place of Christ.

Not surprisingly, she is locked up in prison for trade union activities with the prostitutes. "We prayed with them, made friends with them, shared their troubles". It is a symbiosis of role identity with Jesus, impervious of gender. The newspapers scream, 'Nuns have been locked up with *vaishyas*'. For Philomena-Marie, "the courage and love of Magdalene is the unarticulated theme of her compassion, which links celibacy with profligacy and makes the latter redeemable".

Joan, on the other hand, hated prostitutes and chased them out of the camps. Legend has it that the sacred sword that won her victory at Orleans broke on the back of one such prostitute, which was followed by her defeat, capture and death. For Philomena-Marie, prostitution, like alcoholism, is an occupational hazard arising out of the frequent economic crises in the lives of the fishers. What is important is to provide alternative modes of employment to women.

Joan dressed as a boy was burnt at the stake for it, because this was a role reversal, contrary to nature and so heretical. Yet, dressing as a boy meant that she could ride to war. Philomena-Marie dressed in indistinguishable fawns, dull browns, neither merges with nature nor does she stand out. This is in contrast to the brilliant hued colours of the fisherfolk. Her clothes mitigate her gender (they do not neutralise it or transmute it) because these are the colours one would associate not only with renunciation, but also with bureaucracy.

So in a world of men, Philomena-Marie plays out her vocation. She is unafraid of prelates, capitalists, governments and death. She is thin (anorexic in the new equations between fasting and visions) and overworked. She oscillates between many roles. She nurtures a boy (married at 18), his wife and child because they cannot quite manage on their own. She races between villages, providing medical help. She keeps the KSMTF office in order. Earlier she stayed with a woman whose husband had died at sea, and helped her reorient her life. Sometimes she gets thrown out of a Sunday school classroom because the visiting prelate sees her trade unionism as a bad example to young children. She eats her food with co-workers (nuns from a nearby convent) or with an office bearer at the KSMTF. She says, "We are networking with other movements. We are in touch with Medha Patkar." There can be no competition or jealousy in the emulation of saints; there can only be patience and reservoirs of heroism which sees martyrdom as the true androgynous term. This paper does not ask for martyrdom but asks to listen to the voice of the potential martyr and respond to the commitment to the cause, to be sensitive to the person who fasts, has visions, rebels, hears voices, and see in the androgyny of his or her being questions we need to really ask ourselves about what it means to be human.

Notes

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1 Susan Visvanathan, *Housewifisation and Women's Rights*, 1992 (a review of literature), Ivan Illich, *Shadow Work*, 1981; *Gender*, 1982; Carolyn Merchant, *The Death of Nature*, 1971, Maria Mies, *Patriarchy and Accumulation on a World Scale*, 1986, Maria Mies, Veronika Bennholdt Thomsen and Claudia von Werlhoff, *Women: The Last Colony*, 1988.

2 Sylvia Hewlett, *A Lesser Life*, 1986.

3 How terrible is the envy that Woolf feels for those male citadels into which women had no entry In *Jacob's Room*, the contempt for women is well recorded "No one would think to bring a dog into church, a dog destroys the service completely. So do these women – though separately vouched for by the Theology, Mathematics, Latin and Greek of their husbands" [Woolf 1984. 30]. *Night and Day* chronicles a greater resolution of the conflict between women's roles and work, between marriage and occupation Work cannot yet be a career, but there is a greater celebration of cerebral endeavour and to some extent masculine adaptation to feminist strivings Katherine Hilberry, in this novel, is a secret mathematician. "No force on earth would have made her confess that. Her actions when thus engaged were furtive and secretive like those of some nocturnal animal." It is Jacob, of *Jacob's Room*, who is the inheritor of history, architecture and learning – also of war and death.

4 The sources of this interpretation are people's narratives amongst a practising Christian community in Kerala, see Visvanathan (1993).

5 Ann Snitow in *Feminism and Motherhood* has paradigmatised the shifts in feminist thinking from the separatism of the 1960s to the anti-motherhood manifesto of the 1970s. Finally, she says, "In the 1980s we have apologised again and again for ever having uttered what we now often name a callow, classist, immature or narcissistic word against mothering... We have embraced nurturance as an ethic, sometimes wishing that men would share this ethic without much hoping they will" [Snitow 1992:42].

In a completely different vein, Prue Chamberlayne analyses the emergence of *The Mother's Manifesto* and disputes arising out of it. The manifesto was issued by women who were a part of the West German Greens in 1987. Their demands 'include collective provision for child care, a revision of urban design, pay and pensions for home careers, flexible employment, increased leisure time and the facilitation of political activity for mothers'. According to Chamberlayne, many feminists believed the manifesto was reactionary and could even mean a return to Nazism, presumably to kitchen, church and kindergarten. The *Manifesto* reflected the disenchantment with individualistic, capitalistic, competitive values which deny biological spaces to women. The debates on caring have become centre space. German feminists echo the anguish of Ivan Illich, that gendering has led to greater inequality, that participation in the labour market has led to greater violation and loss of autonomy for women [Illich 1982; Chamberlayne 1990:10-11]. The sadness of the *Manifesto*, it seems, lies in that it wages an assault on non-mothers, in a way that was waged by women against men, or men against women in earlier years. German feminists like Giselda Erler say that as mothers they feel 'marooned', relegated to a reserve as guardians of a dying culture. Mothers must be returned to the centre of societies, the quality they impart to life of sharing, intimacy, uniting of body and soul, which have been destroyed by 'reason' must be valued once more. In the same way, such feminists do imagine the development of a new male tenderness and responsiveness through intimacy with babies, as well as a rediscovery and extension of eroticism in experiences surrounding reproduction [Chamberlayne 1990:11]. There is therefore the possibility of the transcendence of existing gender roles; and yet the retention of differences.

Joan Tronto analyses Carol Gilligan's famous theory of care as being both situated in women's experiential morality as well as transcending difference. Care, therefore, centres around responsibility and relationship rather than rights and rules; it is concrete rather than abstract; it expresses itself in activity rather than in theory, engaging in 'daily' experiences and moral problems of real people in their everyday lives [Tronto 1987.648].

What about 'caring' or pro-feminist men? Lynne Segal, in her essay *Femininism, Socialism and the Problem of Men (1989)* quotes Jonathan Tonstram, who was an active participant in communities centring around socialism and women's rights. "I feel it is vital for men to be more closely involved in child care if patriarchy and male violence is to begin to crumble. And that, however bleak our immediate political prospects, one thing that can happen now is that men can change" [cited in Segal 1989:3].

Segal demands an analysis of masculinity which she feels is an area of conceptual deprivation. There are many different kinds of men and masculinities – gay, straight, gentle

and tough, democratic and authoritarian – and these are all cut across by race, class, ethnicity and religion [Segal 1989:15].

That feminist experience contributes to theoretical wholism is a point made over and over again [Haug 1992.16] But Mary Louise Adams in her essay *Identity Politics* (1989) argues that personal experience was used in the feminist cause as a means to liberation, but it should not cut feminists off from larger struggles. Similarly, Sally Alexander (1991) states that the first wish of feminist history to uncover new meanings for femininity and women, to propel sexuality 'to the forefront of the political mind' was very similar to the goal of psycho-analyses The latter attempted the discovery of a subjective history through image, symbol and language She asserts that psycho-analyses and feminism arose together. (I would even assert that early critiques of Freudian psycho-analyses came from feminist novelists like Virginia Woolf, as *Mrs Dalloway* and *Orlando*, clearly show.) Alexander argues that psychoanalyses preferred to focus on the mother child relationship while feminism went into the debates about the rights of 'workers' and 'citizens', the rights of women in the public sphere [Alexander 1991:128-133].

In this pursuit of questioning 'normality' feminists like Shiela Rowbotham have critiqued the concept of the good or 'normal' mother in an essay called '*To Be or Not to Be*' (1989). She asserted that feminism's main contribution was to show that happiness could come from other things than mothering. Feminists came out honestly with their feelings, to show that motherhood could be both oppressive or liberating, it was feminists who articulated the belief that "motherhood must be freely chosen and socially transformed". Yet by the 1980s she concedes, with Liz Heron, that feminists were "melting into motherhood" [Rowbotham 1989: 84].

6 Genevieve Lloyd, *Selfhood, War and Masculinity*, 1986.

Virginia Woolf argued in *Three Guineas* (1938) shortly before the IInd world war, and her own despairing suicide that "as a woman, I have no country. As a woman my country is the whole world" [Woolf 1986. 125] She insisted on a policy of non-participation where women would refuse to endorse war celebrations, activities or even discussion She could only do this if she was economically independent, and further Woolf even pressed for wages for housewives. Marriage and motherhood, she argued, is a profession. She stated that women's work was as sacred as that of the clergyman who is paid without derogation. It is interesting to note that Woolf saw housewifisation and motherhood as creative possibilities of women's self-expression. She never excluded it as a profession. Mrs Ramsay in *To the Lighthouse* is a powerful person. It is in a seemingly corrupt and yet intensely intelligent figure like Charissa Dalloway (1915, 1925) that housewifisation with its boredom, its tragic loneliness is handled. The deprivation from work – the elite and languid body – is expressed here as the broken and diseased female body. Yet three is something resilient in *Mrs Dalloway*. What seems like corruption, an idleness enforced by society, becomes almost contemplative.

Mrs Ramsay in *The Lighthouse* on the other hand, merges with things. When she dies, everything becomes empty. The house, representative of an order that she sought in the world and in human relationships becomes the symbol of emptiness. For Mrs Ramsay, the world was a hive, which captured the intensity and intimacy of conventional family relationships, where women were indeed so dominant and central [Lloyd 1986; see also Sandra M Gilbert *Soldier's Heart: Literary Men, Literary Women and the Great War*, 1989]. Gilbert shows how during the Ist world war, women began to play an unusually important part. Earlier they had been powerless, but now they were the great sacrificers – sacrificers of fathers, brothers, sons, sweethearts and husbands. She quotes D H Lawrence, "Why do the women follow us, satisfied/Feed on our wounds, like bread, receive our blood/ Like glittering seed upon them for fulfilment". Further, she argues that the war meant that the women could join the labour force, and this was the first rupture with a socio-economic history that had heretofore denied most women chances at first class jobs...

7 Marina Warner's fascinating account of Joan of Arc focuses on her marginality in terms of social and political roles, and her clarity regarding her female biological identity. Warner writes, "the state of suspension, of indifferentiation achieved by a transvestite girl was confirmed by the Christian tradition as holy. Sexlessness is virginity's achievement and a metaphor for martyrdom, as hagiography bears out". Warner disclaims the "disorder of the androgyny of the neuter" in Joan's case (p 157). She says, "in holiness, androgyny is not neither this nor that, it is the fusion – and Joan belonged to this order – the absoluteness of the way, the impregnability to relativism, which means their sovereignty over time" (p 158). Warner asserts that Joan is the symbol of mobility, accepting neither her peasant birth, nor her female condition, or the limitations that would be a consequence of this (p 151). Having dressed as a boy, and while cutting her hair in the latest masculine fashion, Joan, yet, "never proclaimed herself a boy Indeed, she never once pretended she was male, since she referred to herself in the feminine gender, as La Pucelle, the Maid" (p 151).

8 Marina Warner's term.

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Defending the Dalki Forest

'Joint' Forest Management in Lapanga

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This paper argues that the concept of 'joint' management of forests needs to be looked at historically in order to uncover the degree of state intervention in what are generally known as community forest protection schemes. It looks at various threats to sustainability of JFM in one village in Sambalpur district of Orissa, highlighting the fact that management for timber rather than merely protection by village committees is illegal. Thus, where community forest 'management' has been successful, it rests on the connivance in illegality of sympathetic forest officers.

IN 1948, a forest officer from Angul visited Sambalpur to watch Pandit Nehru lay the foundation stone for the Hirakud dam. He drove by a beautiful patch of sal forest and was impressed by the work of the local forest department. When he joined later in 1950 as DFO in Sambalpur, however, he was shocked to discover that the forest was not under his control, but belonged to the village of Lapanga. In 1993, 43 years later, there was still a tendency to assume that such a well protected patch inevitably owed its existence to the labours of the forest department. Another DFO happened to be driving by when a bulldozer belonging to Larsen and Toubro (L&T), knocked down seven or eight mature trees. Furious by the fact that this violation of forest land was being carried out 'under his own eyes', he immediately impounded the bulldozer, took away the trees and registered a case. Back in his office, he attempted to locate the precise reserve forest, only to discover that 'the forest was not his'.

A day later, the villagers got their act together and went to the forest office and demanded their trees back as the forest belonged to them. They did not make much headway with the ACF in charge, as the trees were a part of the evidence. L and T added to its sins by threatening to sue the forest department as the impounded machine was costing the company about Rs 3,000 rupees per hour in losses. However, after a week or so, the case was compounded, a fine was paid and the bulldozer returned. In the meantime, having failed to get the trees back from the range office, the Lapanga villagers 'liberated' one tree which had not yet been carted away, a magnificent specimen of Bija-sal, (*Pterocarpus marsupium*) which they then auctioned in the village for about Rs 1,600. Completely oblivious to the problems involved in the forest department usurping the fruits of village forest protection, albeit saving it from further loss, the then ACF Rengali, sent a notice to the village that since the tree was already 'hammermarked' by the department, it had become government property. However the village took no notice of the notice, and after a few feeble attempts, no further effort was made.

In 1968, when the people in Lapanga felt an acute need for funds to build a high school in the village, they approached the forest minister, who was also a resident of Sambalpur, and the DFO (territorial). The latter suggested that the money might be raised by allowing some trees to be cut from the village forest. The money required for the school was estimated at Rs 50,000, and a local Gujarati contractor hired to carry out the felling. About 150-200 large girth class trees were felled. The village received Rs 40,000 plus 2,000 as a personal donation from the forest minister. The school was built. It was only later that some people in the village learnt that the actual value of the trees felled was more than Rs 2 lakh. The money so generously gifted by the minister was from the same source and not from his personal funds. The DFO, the minister and the Gujarati contractor had obviously made a huge profit, while the village did not even get the full Rs 50,000. Discussing this incident with one of the forest officials recently, we learnt that the DFO and the forest minister had definitely bent rules by allowing the felling to take place. Even in a village forest, the village has rights only over fuel, fodder, etc, and the timber continues to come directly under the management of the forest department. Had a case been registered by the village committee, it would also have ended up being chargesheeted for being a party to the illegal felling.

What both these cases highlight are the constraints faced by a village which wants to protect its local forests. Appropriation by the forest department is only one aspect. The much touted history of forest protection in Orissa which is based on community management of forest, including rules regarding felling of trees for local use, is based on a fragile legal bedrock – in many cases what the villagers do, and what they are getting awards and increasing recognition for doing is illegal in the eyes of the law. Joint Forest Management (JFM) then rests on the connivance in illegality of sympathetic forest officers. In this paper, we focus on the history of protection efforts by one village, Lapanga, in order to bring out some of the internal and external threats to sustainability for JFM or community forest management. We also argue that the concept of 'joint' management needs to be looked at historically, in terms of different modes of state organisation.

There are estimated to be more than 4,000 village committees, protecting about 27 per cent of Orissa's forest land [Poffenberger 1996:34-35]. Although Orissa was the first state in India to pass a resolution enjoining the creation of forest protection committees, the major thrust of protection in the state has been by self-initiated groups. In some districts like Sambalpur and Sundargarh, the majority of the forests thus protected are village forests on revenue land, but in other districts like Mayurbhanj and Dhenkanal, it is largely reserve forest land which has benefited from popular protection efforts. Some of these village committees are of relatively recent origin, others started in the 1940s and 1950s; while a few exceptional ones like Lapanga are claimed to date back a hundred years. The Lapanga village forest now covers about 700 acres and is popularly known as the Dalki forest, after a 'devi' who is said to eat anyone who enters it with destruction in mind.

Sambalpur conjures up an image of frond-edged, buffalo-bathing, women-washing ponds. The paddy fields are still lush even at the height of summer, just before the second harvest is cut. As one enters Rengali on the train from Delhi, the hills suddenly become greener – here and there one sees a patch of good forest. Enroute to Lapanga, we pass the reservoir of the Hirakud dam - travelling on top of the dike, past a sickly forest department eucalyptus plantation on its banks, towards some middling low hills. These yield to more protected patches, interspersed with dry fields and only an occasional clump of trees. Lapanga appears

in the distance – almost like a picture postcard – red tiled houses set amidst dense foliage.

Lapanga is a large village, with 12 hamlets (padas). It also boasts a post office, a vocational college and a branch of the State Bank of India. Out of a total of 358 households, little less than half (43.3 per cent) are landless labour, mostly from the scheduled castes (ghasis, gandas) or scheduled tribes (gond, sohra). Marginal and small farmers follow next comprising 26.5 per cent and 15.4 per cent respectively. Only six households or 1.67 per cent of the village could be classified as big farmers, out of which four are brahmin households. Castewise it is a heterogeneous village, with brahmins, sundhis, kulithas, kisans, gaurs, kewats, gonds, soharas, ganda, ghasis and mehers among those in significant number. (See Table for full breakup).

The president of the Lapanga forest committee claims that when he was young, Lapanga was the most important village in the locality, far more than the block headquarters Rengali, which has prospered only owing to the government presence. There used to be an entire hamlet of sonars or jewellers, another specialising in bhattis or liquor outstills and so on. Once the Hirakud dam came in 1952, the face of the entire district changed. Two-thirds of the agricultural land of Lapanga was submerged. The former headman or gaontia too lost all his land, and after some years, left the village to live with his daughter in Bargarh. Faced with the loss of agricultural employment, there was a massive population efflux. Local labour left for Rengali or Bargarh which had suddenly become rich due to irrigation. Taking a walk through Lapanga today, everywhere one sees abandoned houses and roofs crumbling into disrepair. Sonaripara still retains its name, but it no longer glitters with molten gold being shaped – only a couple of sonar families are left. Conversely, there was an influx of oustees, or people from neighbouring villages who had been completely displaced by the dam. They now constitute an entire hamlet of their own.

Initiating Forest Protection

Oral history suggests that protection has been going on for about 100 years. Tapaswani Pradhan, daughter of the last headman, Ratnakar Sahoo, a kulita by caste, says that protection started in the time of her grandfather, Sudam Sahoo. Since her father was born in 1900, this puts the date when protection was initiated somewhere in the late 19th century. Natwar Dhurwa who worked as jhankar (village watchman) of Lapanga from 1942 till the post was abolished in 1960, along with the abolition of the gaontia system, says his grandfather had been watchman of the Lapanga village forest for 32 years. Each household contributed 1 tami (approximately 800-900 gms) of paddy per month towards his wages. Whatever the accuracy of these accounts, the fact that protection has been going on for a long time is corroborated by the Hamid settlement records of 1927. It notes the amalgamation of 444.93 acres of village wasteland as well as some plots of private ryoti land, contributed by families in the village, into the Lapanga Gramya Jungle. Villagers say that the land that was given up was mostly unproductive, and that the families which contributed were among the richer agriculturists of the village, owning about 300-400 acres each. Parting with a few acres was thus not a problem.

In some versions, the initiative to start a forest protection committee separate from the normal panch, was taken by the gaontia, while in other versions, it was the contributing families which decided. However, there is no doubt that as the head of the committee the gaontia played an important role in sustaining the practice. The last acting gaontia of Lapanga, Ratnakar Sahoo, in particular, was said to be strict. The hereditary position actually belonged to his nephew but due to the latter's youth, Ratnakar combined the positions of village headman (mukaddam), gaontia, and caste leader of the kulitas. In many parts of Orissa and the Central Provinces, especially in the former princely states, land revenue administration took place through village lessees called malguzars or thekedars, or through gaontias. *The Chattisgarh Feudatory States Gazetteer* (1909:10) defines the position of gaontia thus: "In each village an officer, who is called a gaontia, is appointed, whose duty it is to watch the interests of the state, collect and pay in the revenue and report on the condition of the village from time to time. He is remunerated by the grant of some land free of rent and also cultivates the state lands set aside to provide supplies for state servants who may have to visit his village in the course of their duties.... A gaontia is usually elected by the body of tenants and is much looked up to by them. The post is not hereditary but in practice it usually descends from father to son". Unlike zamindars who had control over the forests in their area, and to whom tenants were usually required to pay some grazing and commutation dues, gaontias merely 'acted as a trustee on behalf of the government responsible to ensure that the village forest were used for community needs' (*Sambalpur Gazetteer*, 1971:347).

In other words, the system of revenue administration (which included the administration of village forest land) was 'joint', between village communities and the state, the person of the gaontia providing the link by acting as agent of both. Where the 'community' itself was settled by the gaontia – who was usually granted a rent-free period in order to extend cultivation into hitherto unbroken tracts – the opposition between 'community' and 'state' becomes even more slippery. The rules followed by the village forest protection committee, particularly the distinction between prajas and non-prajas, also reflect the rules in place in many zamindari areas, where landless labourers (thaluas/ thothas) were made to pay higher grazing and 'nistar' dues than ryots, on the grounds that they did not contribute through land revenue. Those engaged in non-agricultural occupations also had to pay according to the fuel consumed. Thus, in the 1930-40s, in neighbouring Phuljhar zamindari, blacksmiths who repaired implements paid Rs 4 as nistari

Table: Number of Households in Village Lapanga

Castes	Rich	Middle	Poor	Marginal	Landless	Total	Praja 'A'	Praja 'B'	Sukhvasi
Brahmin	3	9	2	7	–	21	20	1	–
Kulita	–	8	3	41	13	65	57	3	5
Kisan	–	1	8	7	22	38	–	16	22
Gaur	1	2	10	8	19	40	2	20	18
Gond	–	1	14	7	23	45	5	17	23
Gonda	–	–	–	5	14	19	1	4	14
Ghasi	–	–	–	4	21	25	–	4	21
Meher	–	8	4	1	5	18	2	13	3
Dhoba	–	–	2	–	3	5	–	2	3
Bhandari	–	–	–	2	–	2	2	–	–
Mali	–	–	–	1	1	2	–	1	1
Rajput	–	–	–	1	–	1	–	1	–
Kewat	–	4	1	1	6	12	–	7	5
Marwari	1	1	–	–	–	2	–	2	–
Sundhi	1	10	1	5	3	20	15	4	1
Mohanty	–	1	–	–	–	1	1	–	–
Chipia	–	–	2	–	–	2	–	2	–
Gudia	–	–	3	–	–	3	–	3	–
Bhuiyan	–	–	–	–	4	4	–	–	4
Kumhar	–	–	–	3	1	4	2	1	1
Munda	–	–	–	–	7	7	–	–	7
Sunari	–	2	4	–	–	6	–	6	–
Sohara	–	–	1	2	13	16	–	3	13
Total	6	47	55	95	155	358	107	110	141

dues, while blacksmiths who smelted iron paid Rs 6 [Kamath 1941:327-8]. In such a situation, perhaps one might argue that 'community' forest management may have been 'joint' forest management for much longer than one thinks.

Management Rules

During the gaontia's time, fuelwood from the village forest was free. A contribution was levied from all the landed households in the village to meet the expenses of the protection committee, the amount being proportionate to the land revenue or malguzari paid by the ryot. Today, the rules are somewhat different. All families are required to pay for firewood at the rate of Rs 36 for one bullock cart, Rs 2 for one headload or Rs 5 for one shoulder load (2 loads). For an average household this lasts approximately 4 to 5 days. However, the rates paid for timber for house construction and agricultural implements vary.

There is a three-fold classification of residents: praja A, praja B and sukhvasis. Praja 'A' comprise those who have land and whose ancestors were said to be involved in the initial protection efforts, either in terms of contributing their uncultivable land, and/or voluntary contributions of paddy proportional to their rent. This category is entitled to timber at the lowest rate. Praja 'B' residents are also landowners, but do not enjoy the lower rates for forest produce from Dalki. They are in the same position as the sukhvasis, who apply to the committee and buy the produce at the higher rate of 1.5 times the praja A rate. The third category are the sukhvasis or landless residents. There are also certain households which do not have land but are still eligible for praja A benefits. We assume that these households had land earlier (and had contributed in one of the ways towards Dalki management) but due to some reason or the other – for instance submergence by the Hirakud reservoir, or a large number of siblings resulting in increasing land fragmentation – gradually lost their land holding status. Conversely, even if a sukhvasi, due to change in economic status, is able to buy land in the village, then the rights to lower rates for produce from Dalki forest are not automatically transferred to the new owner. In short, it is solely descent from the original families which settled and protected the Dalki forest that entitles residents to lower rates for timber. The 10-15 original households have now expanded to 107, but they still comprise merely 30 per cent of the total population of the village. However, these families no longer pay for the upkeep of the forest, and currently all the expenditure of the forest protection committee is met from the sale of timber and fuelwood to both praja and sukhvasis. In one sense therefore, the Dalki forest is managed as the private concern of a few families, for which other users are required to pay higher rates. The sukhvasis appear to accept the inequality on the grounds of original contribution, but also because the rates charged for timber from the Dalki forest are lower than the market rate.

The village forest committee which looks after the day-to-day management of the forest has approximately 10-12 members, from different castes, although with a heavy component of brahmins and kulithas. They are all male. A general body meeting (AGM) is held every June 15th at which the executive committee is formed and accounts are presented. In practice, however, few people apart from the prajas attend the AGMs. While the membership of the AGM is open to the entire village, only the 'praja' can be members of the executive committee. General body meetings may also take place at shorter intervals, for instance, when there has been a major theft. Since 1963, the presidents of the committee have been brahmins, except for two brief spells of two and three years respectively, when there have been sundhi and kulitha presidents. The presidents are changed every two or three years, apart from a long period when one person was president for 14 years.

The committee employs a forest guard throughout the year but in addition one or two members go on patrol occasionally. During September/October or the Dussehra period, the number of guards is increased to two, as it is a slack agricultural period, and villagers might then be tempted to 'turn their attention to the forest'. The guards get Rs 200 per month as well as 50 per cent of the compensation levied on any illegal felling. Anyone else in the village who discovers illegal activity also gets 50 per cent of the fine levied in compensation, which is an incentive for efficient patrolling. Sometimes the money involved can be quite substantial. In 1995, one of the guards got Rs 750 from one case alone. Officially, according to government rules, fines cannot exceed Rs 5. To get around this, the villagers levy 'compensation' according to the nature of the tree. The sale of timber and compensation levied are sufficient to meet the guards' income and household contributions for this purpose are no longer required. The forest protection committee also generates enough funds to assist in other aspects of village development, and unlike the panchayat which has to go through a bureaucratic procedure, the forest protection committee can release funds immediately. For instance, they used the money to repair their primary school. The middle school was entirely supported by the forest committee from 1960 till 1980 when the government took over; while the high school was maintained from 1975-1980. They also finance the Jagannath Rath festival (June-July) in the village, the Shital Shasti (May), Chait Purnima (April) festivals and 50 per cent of the expenses for Dussehra. Expenses like the transport and subsistence costs of villagers who went to Sambalpur to ask the collector for a hospital are also borne by the forest committee. Besides taking over some of its tasks, the forest protection committee has no relation to the formal panchayat of the village.

The rules regarding who can take what from the forest are strict but transparent. Every individual in the village knows what they are. Outsiders are not allowed to use any commodity of the forest. Local villagers, whether praja or sukhvasi, are also not allowed to use wood or timber for commercial purposes, though they are allowed to collect (free) non-timber forest produce for sale, e g, sal seeds and mushrooms. To gain access to timber for house construction or agricultural implements, villagers submit written applications to the president of the committee which are then passed to the secretary. There is a schedule of rates for different girths (2 or 3 feet) which is kept with the secretary. After the money has been deposited by the applicant, the committee consults with the forest guard and determines which tree is to be cut. Certain areas are demarcated for cutting every two or three years in a system that can be called 'selective rotational felling'.

The trees felled from Dalki do not cost as much as in the open market, but the labour and transportation costs from the forest to the village are high. For example, while the tree may cost Rs 1,000, the cartage (bullock cart) costs Rs 200 per trip. It takes about two trips to cart the main bole of the tree and another two trips to cart the 'lops and tops'. At least six men are required to fell the tree and saw the bole, remove branches, etc, for cartage. They have to be paid Rs 30 per day. There are the further costs of sawing the timber into the plank size required, which involves skilled carpenters. Secondly, sometimes the tree selected by the buyer turns out to be hollow, in which case the buyer still has to pay the felling and transport costs. However, in such cases the committee does not charge the timber rates and fuelwood rates/cartload are levied. The committee members claim that the demand is not very high, just 30-50 trees per annum, but they also do not have any system of confirming whether the tree will be hollow other than 'experience' and visual checks. The uncertainty regarding this and subsequent high conversion costs are somewhat prohibitive, and even if timber is easily available in the village, people do not buy indiscriminately. In addition, when an application is made, the committee members go to the applicant's house to confirm the need and actual quantity of timber required.

Threats to Sustainability

The efficacy of the forest protection is evident in the fact that the average height of the sal trees today is 35-40 m. One spectacular feature at the entrance to the forest is the 'Sat-gachia' – or seven sal stems growing from one root. It has become a religious site, despite having died last year. The committee has received several awards for its work, including the Jungle Parichalan Surakhya Award in 1976, which involved Rs 500 plus a certificate and the Prakriti Mitra Award in 1985-86 which gave them Rs 5,000 plus a certificate. It has also inspired some neighbouring villages like Gurupali, Khinda, Ghichamura and others to start protecting their own village forests, even though only as recently as 10-15 years ago.

However, there are several factors which mitigate the success of the Lapanga committee or which mar its potential future. The management practices of the committee are not adapted to the subsistence needs of all the villagers, and if they were all consulted equally, the resultant silvicultural practices might be quite different. The landless households in this area are heavily dependent on the collection and sale of non-timber forest produce – e g, sal seeds, mushrooms, tendu leaves, and sal leaves – out of which leaf plates are made in Sambalpur. Yet, the committee does not allow any pruning of tendu bushes in the forest, which means that it does not generate new leaves as well. The villagers engaged in collecting tendu leaves (to sell for beedi leaves) are then forced to get them from elsewhere.

Apart from these discriminatory management practices and the inequity of the differential rate system between prajas and sukhvasis, there is the inescapable fact that much of the protection of the Lapanga forest is at the cost of the neighbouring Moulabhanja reserve forest. The poorer residents of Lapanga, both men and women, generally go to Moulabhanja for their personal fuelwood needs, or cut wood from trees on private lands when the owner is not looking (as told to us by some outraged households) However, they all deny that there is any headloading for commercial use by Lapanga residents, as the landless and marginal households find fishing in the nearby reservoir more profitable than headloading. However, many of the landless or marginal farmers in neighbouring villages are engaged in head loading from the Moulabhanja reserve forest, the smuggled firewood and even timber being taken to Sambalpur on the trains that cross Lapanga. According to one estimate, about 200 headloads arrive daily in Sambalpur from the general direction of Rengali range.

Several of the Praja families in Lapanga also buy their fuelwood from headloaders at Rs 40 per shoulder load, which works out to 40 kg. Although fuel from Dalki is available at Rs 5 per shoulder load, this is not fuelwood in the strictest sense but brushwood like twigs, broken branches, etc. Fuelwood is available from Dalki only when trees are felled, and not throughout the year. The main bole is taken by the buyer for timber purposes while the 'lops and tops' are used as fuelwood. Hence the main source is shoulderloads from Moulabhanja headloaders, consisiting of wood chopped into 'chulha-size' pieces from much larger trees or branches.

Conversely, large-scale felling by the forest department in the Moulabhanja reserved forest has significantly reduced this option, shifting demand to the Dalki protected patch. Pressure on both the reserved forest and the Dalki forest has increased since the submergence of over 2,000 acres of agricultural land by the Hirakud dam. Whereas earlier people would fell trees from their private agricultural land, rather than pay the committee to extract timber from the protected patch, this option is no longer open to them.

Above all, there is the constant threat of the forest department deciding to enforce rules strictly, which would negate the space for community management. The longest serving president of the forest committee described to us his constant fear of losing his government job as a school teacher, since he was required to sign the applications, and felling trees from Dalki for community use was, strictly speaking, illegal Never mind that if the villagers had not protected the patch, there would have been no trees at all. The result was that the villagers would quickly fell the tree, and hide it in the village. He then made several visits to the local DFOs and even bought a copy of the forest rules and studied the revenue laws. Successive collectors were invited to the village, and made complimentary comments in the visitors' register. In 1979, even the forest minister, Natwar Pradhan, came. Despite the awards, despite being aired on television from 1983-85 as part of the Orissa government's tree planting and environment protection promotion campaign, the villagers are not confident that their forest management system is really in their control. In another village in the same district, a Van Samrakshana Samiti was set up on the basis of an already existing committee. However, when a new DFO saw the villagers cutting trees according to their committee management rules, he immediately confiscated the timber and fined the villagers. Disgusted, the village decided to have nothing more to do with the JFM scheme. At a time when the government is trying desperately to increase the forest cover, it is essential that such problems be sorted out, if JFM is to succeed.

Village Users versus Other Uses

Periodically, there are other threats to the forest from development projects – from government orders positing alternative uses or users of the land. Way back in 1940, the village was approached by the collector and DFO requesting timber from Dalki, which they said was needed for the war. But the village refused and since the gaontia was a strong person, there was no forced felling. In 1991, one of the Birla companies wanted to take over some of the protected forest for reforestation, which they identified with the help of one of the committee members. He

has since been externed for his role in the affair. According to the current president of the FPC, who narrated the story to us, this happened at a time when the government had asked industries to take up land for afforestation. A meeting was held in the village at which the company asked to be given 32 acres of the protected forest on lease. On further enquiry, the villagers discovered that the area the company wanted for the lease already had a good forest. In fact there was no barren patch as large as 32 acres, and any bare patches there were, were scattered and small. The president says he objected to the meeting as there were no committee members present, and finally the visitors went back empty-handed. Later, the company approached the tahsildar for help. The tahsildar issued a notice stating that the relevant land was being taken up for plantation and that if anybody had any objection they could come to the tehsil and put forward their plea. A copy of this notice was then pasted at the back of the 'panchayat ghar', which was not a very prominent place. Quite by chance, the notice was read by someone just before the last day for appeal, and an objection lodged immediately. The tahsildar gave them a date for appearing, asking the 'villagers' to appear before him to present their objections. As number of persons was not specified, the Lapanga villagers hired five trucks to take them to Rengali. The tahsildar got to hear of this and asked the president to come with a few people. Eventually, two truck loads of people went and won their case against the Birlas.

More recently, the government has given the go-ahead to two thermal power projects in the area. Barely a hundred yards away from the edge of the Lapanga forest is a signboard by Samlai Power Company proclaiming it as a site for a 500 mw thermal power plant (2 x 250 mw). Jharsuguda is rich in coal deposits – villagers building a well or constructing a building have only to dig three to five feet before they come up against the black shoal. Capitalising on this fact, the coal and power ministries have identified sites for thermal power stations, some of which are to be linked to captive coal mines. Under the Ib valley project, Talabira I and II have been given as captive mines to Indalco and Samlai Power Company respectively, to feed their thermal power plants. This is merely part of a larger network of thermal power plants and open cast coal fields in the area, including the Bommaloi TPC, six km away from Lapanga. However, Samlai is apparently not showing signs of progress, and according to ministry sources, there is the possibility that the government might grant the lease to some-one else.

The villagers are divided over the potential outcome. While some of them feel that the plant is not about to be implemented imminently, owing to the fact that the company is engaged in plantation on that land, others are pessimistic about the outcome. Lingraj Dash, one of the older members of the committee, feels that in themselves the power plants may or may not displace the forests, but he expects that the onslaught of people that accompany any such project will cause massive deforestation. The labour which comes to work in the plants will need fuelwood for cooking, thatch for their houses, etc. What was once a green-gold forest will be black and tarred. The elders also fear that as their ranks thin, and the younger members take power, the forest will be lost. As a large number of youths of the village are unemployed, they fear that they will be easily motivated to sell for immediate benefit. The younger men are generally in favour of the power plants, thinking it will bring them employment, as against their elders who expect most jobs to go to skilled outsiders. Women are not seen to figure in either equation They have no presence in the forest protection committee and are unlikely to get jobs in the power plants.

The history of the coal sector as far as displacement goes has not been very encouraging. Although Coal India (CIL) has recently come up with a 'Coal India Rehabilitation Policy' in the process of getting a 500 million dollars loan from the World Bank and another 50 million dollars from the IDA for coal sector rehabilitation, NGOs and others are not very happy with its assumptions and proposals. As Ratnakar Bhengra (1996), has pointed out, among the conditionalities accompanying the loan is retrenchment of surplus labour, which will reduce even that minimal promise of employment with which CIL could hope to placate potential oustees. While environmental impact assessments may be carried out for a single project, the overall effect of mining, power stations, dams, ancillary industries and other projects in contiguous area means that displacement is compounded several times over [Bhengra 1996:648]. Thus far, less than 35 per cent of people displaced by the coal sector have been rehabilitated, according to 1985 government figures [Bhengra 1996:649]. Further, if recent newspaper reports are to believed, rather than tightening its environmental damage control laws, the coal ministry is proposing to do away with existing requirements under which an amount of land equivalent to that lost by mining has to be given to the ministry of environment and afforestation costs paid before mining can begin [Mouli 1996].

While coal may be a national good, so are forests. The figure of a requisite 33 per cent forest cover is commonly touted as a national requirement. While government policies such as coal sector rehabilitation and forest sector rehabilitation in the form of joint forest management contend for space, inevitably the primary impact is on the livelihood and living spaces of local villagers. Whatever the choices and trade-offs that may be made, the least that should be done is that all classes and castes among local people should be consulted.

In examining the experience of forest management in one village in Orissa over approximately a century, this paper highlights three issues. First, it unpacks the notion of community to show that what may be successful 'community' forest management from the viewpoint of sustainability and efficiency can be far from democratic or equitable. The all-male, predominantly upper-caste constitution of the committee makes it unrepresentative of the needs of the village as a whole. To counterpose community forest management or people's institutions to state institutions cannot be the simple answer to the problems JFM is seeking to address. Secondly, we have argued that what appears to be an entirely 'community' initiative in fact owes a great deal to the way in which 'the state' was organised in areas like Sambalpur. Both the initiating person, the gaontia, and the rules themselves reflect policies in force in parts of the Central Provinces, particularly the feudatory states or zamindari areas. Thus, 'jointness' has been a feature of forest policies for somewhat longer than is usually thought, though not in ways that are commonly understood. Thirdly, effective JFM in the current context requires a complete overhauling of forest and tree-related rules, so as to allow communities the autonomy to take responsible decisions for themselves. There is a fine line to be trod between encouraging local autonomy and responsibility and ensuring that this is democratic – and it is not clear as to who can really do this, certainly not the forest department as it currently stands.

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Self-Sufficiency and Allocative Efficiency in Edible Oils

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WE welcome the comments by M L Dantwala (*EPW*, July 6) on our paper 'Self Sufficiency and Allocative Efficiency: Case of Edible Oils' (*EPW*, March 30). Dantwala's major remarks on our paper are the following:
(i) We have overlooked the commendable increase in productivity of oilseeds cultivation;
(ii) We have ignored a noteworthy feature of the oilseeds economy – that incremental production has been contributed mostly by the areas with relatively low irrigation facilities, through the extension of cultivation to fallow lands, substitution of some low-yielding coarse cereals by oilseeds and their cultivation as a catch crop in some areas;
(iii) While supporting our argument on excessive price incentives offered to oilseeds producers we used the wholesale price index of edible oils rather than oilseeds and government did not contribute to this relative shift towards oilseed prices;
(iv) We have argued against the setting up of Technology Mission on Oilseeds (TMO), the National Oilseeds Development Project (NODP), Oilseeds Production Thrust Project (OPTP) and deliberately chosen market intervention in the oilseeds sector for discussion, and
(v) World prices are not a relevant reference point for judging the appropriateness of domestic prices or allocative efficiency.

Before we respond to Dantwala's criticism of our paper, let us note the main points of agreement. In his concluding section, Dantwala remarks, "for growth in agriculture, our main instrument has to be constant upgradation of cost-reducing technology and its widespread adoption aided by effective extension and support system". This is strikingly similar to what we have concluded in our paper, "policy-makers should shift their focus from overplaying with price instrument to its productivity augmentation, therefore, a strategy which improves the yields and lowers costs will make India a competitive producer of oilseeds on a sustainable basis". Thus it appears that as far as the final conclusion is concerned we are on a similar wavelength. However, there is a major difference in the approach that has led Dantwala to come to this conclusion and how we came to the same conclusion. It may be worth recalling that the focus of our paper, and that is what differentiates it from earlier works, is to know what would happen to cropping patterns in Indian agriculture under an open economy environment. It is well known how Indian agriculture had been largely insulated from global markets through export/import controls. The case of the 'oilseeds revolution' is a story of 'success' under a highly protected environment and as trade is opened up 'self-sufficiency' in edible oils would come under greater threat. It is this argument which lies at the heart of our paper. But Dantwala rejects it outright by saying, "I do not accept the border prices as relevant reference point for judging the appropriateness of domestic prices or for their determination". He may have some valid reasons for this, on which we may respectfully differ with him. To us, in an open economy, world prices do reflect 'make-buy' options, they do represent the opportunity cost of producing commodities in the name of self-sufficiency at home and hence they do determine whether the country is an efficient producer of a particular commodity in question or not. In other words, a comparison of domestic prices with border prices does provide an indication of allocative efficiency in cropping patterns, when the analysis is carried out in an open economy framework. We also believe that world prices would increasingly influence our policy choices in the years to come, as the economy opens up. The proof of this lies in looking at how business decisions are changing in this sector.

With the reduction in import duties from 65 per cent to 30 per cent in March 1995, imports of edible oils went up to 985 thousand tonnes (financial year 1995-96), which accounts for about 15 per cent of our consumption. Now import duty has been reduced to 20 per cent in this year's budget (1996-97) and imports are likely to touch 1.5 million tonnes despite record harvests of oilseeds. Major private sector companies, which were important players in, say, sunflower oil production are becoming large importers of sunflower oil. This trend is being witnessed when coconut oil is still at 65 per cent import duty and the rupee has depreciated by 131 per cent between 1988-89 and 1995-96. If this had not happened and import duties had been reduced, India would be importing about 30 per cent of her requirement, a situation similar to the one that existed in the mid-1980s. The current trends in liberalising trade policy for agricultural commodities indicate that India will import about one-fifth to one-fourth of her consumption of edible oils with a liberal import policy.

Dantwala states that a percentage change in yield per hectare of oilseeds between TE 1986-87 and TE 1993-94 was distinctly higher than that of rice and wheat and we preferred not to comment on this increase in the productivity of oilseeds cultivation. We can commend that now if it is this increase in productivity that has raised production, achieved 'self-sufficiency' in edible oils, and is sustainable even under an open economy framework. But unfortunately our analysis reveals that it is primarily area expansion that has led to 'self-sufficiency' and productivity augmentation had only a secondary role. We do recognise that improvement in productivity would also lead to increase in area. If the entire shift is due to improvement in productivity, and not due to protection, we are happy and would like to support Dantwala. In that case, bringing down import duties on edible oils to say 5 per cent, equivalent to those on pulses, should not invite any opposition and self-sufficiency in edible oils should remain on firm ground. But what is unfolding does not lend support to this. Increasing imports with reduction in import duties are undermining the 'self-sufficiency' in edible oils and it won't be a surprise that very soon it invites opposition from vested interests who have flourished under a protected environment.

While quoting CACP price policy report Dantwala comments that a noteworthy feature of oilseeds economy is that incremental production has been contributed mostly by the states with relatively low irrigation facilities – Madhya Pradesh, Rajasthan and Karnataka. The additional area under oilseeds came mainly through the extension of cultivation to fallow lands, substitution of some low-yielding coarse cereals by oilseeds and their cultivation as a catch crop in some areas. However, this is only partially true, because changes in irrigated area during the 1980s tell a different story. If one looks at the changes in area between 1985-86 and 1992-93, one finds that about 6.3 million hectares of additional area was brought under oilseeds cultivation, about 48 per cent of which was irrigated (3 million hectares). Therefore, extension of oilseeds cultivation to irrigated areas would certainly have had an effect on oilseeds production, because the yields in irrigated areas, in any case, are 1.8 times those in unirrigated areas. It may be that these irrigated tracts are still those areas where irrigation remains under some stress, but surely these are not 'dry lands', and, therefore, the incremental production cannot be solely or even largely attributed to dry and fallow lands.

Dantwala also contends that in support of our argument on excessive price incentives offered to oilseeds producers we use the wholesale price index of edible oils rather than oilseeds. The reason for this is simple. The prices of oilseeds are jointly determined by the domestic edible oil prices which are influenced by the degree of protection accorded to edible oils and export price of oilseed meals. Even if one considers the wholesale price indices of oilseeds, our analysis still holds. Dantwala states that government did not contribute to this relative shift towards oilseed prices as the relative prices of oilseeds were unfavourable

compared to rice and wheat (from 1982-83 to 1985-86). If this is true then the post 1985-86 increase in the wholesale prices of oilseeds clearly establishes the effect of government intervention in this sector. A comparison of the average annual changes in the wholesale price indices of foodgrains and oilseeds during the period 1985-86 to 1991-92 reveals that oilseeds witnessed an increase of 14.81 per cent per annum, whereas for foodgrains the increase works out to 9.83 per cent per annum. Further, Dantwala says that the device of Minimum Support Prices (MSP) was not used to favour oilseeds as a group. However, the device of MSP was, in fact, used when the government announced its integrated policy for oilseeds fixing the wholesale price band for oil at Rs 20-25 per kg in 1988-89. The National Dairy Development Board (NDDB) was entrusted with the task of maintaining the above price band by means of buffer-stocking operations. The 'price band' policy sought to fix the procurement prices of groundnut and rapeseed-mustard "at least 40 per cent above the present levels recommended by the Prices Commission". The result of such a policy was that the wholesale prices index of oilseeds increased by 55.1 per cent between 1988-89 and 1991-92 and the increase for edible oils during the same period works out to 56.5 per cent. This surely had repercussions on other competing crops thus raising questions regarding the 'efficiency' implications of such policy measures. The correction started from 1992-93 onwards, when India had to import wheat at an import price which was more than double of what was being paid to Indian cultivators of wheat. The procurement prices of wheat and rice were subsequently raised to somewhere near their export parity levels.

Another point that Dantwala makes is in connection with our response to TMO and other production programmes. He says, "GSK speak disparagingly about the government's effort to step up production of oilseeds. They virtually blame the appointment of Technology Mission on Oilseeds (TMO), the National Oilseeds Development Project (NODP), Oilseeds Production Thrust Project (OPTP)." On the contrary, we do recognise that it is not unusual for the government to set up technology missions whenever it finds that a particular crop sector is performing badly. We do welcome that. But our main argument in this respect has been that it should focus more on productivity augmentation and not prices. Unfortunately, it appears that TMO became more a 'prices mission' and less a 'technology mission' It ought to have concentrated more on the development/diffusion of technology that increases yields, cuts costs and makes larger supplies available at lower prices. But in our opinion, based on empirical analysis, that did not happen. TMO did raise production, primarily by expanding area under oilseeds, and that too under very high protection from world markets. We feel economically it is not an efficient approach to expand production of edible oils at double the world prices, especially when such a policy affects the production of other crops in which the country has a comparative advantage.

Commercialisation and Diversification of Indian Agriculture

K J S Satyasai
K U Viswanathan

INDIAN agriculture has experienced spectacular changes in the recent period manifesting large-scale commercialisation and diversification. They broadly include cultivation of new crops and varieties, increase in the share of area under cash crops, large-scale spread of livestock activities and fisheries, pursuance of hi-tech agriculture in the areas of aquaculture, bio-technology, horticulture, processing, etc. The latest changes are basically responses of our agriculture to the new economic environment ushered by the process of liberalisation. In this context, M V Nadkarni's contribution is valuable as it examines the commercialisation in its different dimensions [Nadkarni 1996]. The following discussion is meant to supplement his findings on three counts. Firstly, diversification has taken place towards allied agricultural activities such as animal husbandry, fisheries, hi-tech projects, etc, which Nadkarni has explicitly mentioned but does not cover as he has restricted the scope of his paper to the crop sector only. We, however, wish to highlight some of the interesting trends observed in these allied sectors followed by a brief account of recent developments towards commercialisation. Secondly, we attempt to develop a composite index of commercialisation combining different indicators of commercialisation at the macro-level as well as the state-level. Lastly, we wish to briefly examine commercialisation *vis-a-vis* food security which is an issue of current interest and which Nadkarni did not address.

The subsectorwise composition of income generated from agriculture is presented in Table 1. In 1950-51, crop and livestock sectors together contributed 87.86 per cent of the income from agriculture, followed by forestry and logging (10.91 per cent) and fishing (1.23 per cent). By 1990-91 the composition had changed significantly, such that the share of the crop sector and livestock sector together increased to 92.90 per cent of the income. The share of forestry and logging drastically declined to 4.73 per cent. Fishing has gained prominence by nearly doubling its share to 2.37 per cent from 1.23 per cent in 1950-51. A noteworthy trend is that the share of the crop sector declined from 79.50 per cent in 1950-51 to 73.90 per cent in 1990-91 as the share of livestock increased to an impressive level of 19 per cent from 8.36 per cent in 1950-51.

It would be interesting to examine the composition of value of output from the livestock sector which is presented in Table 2. The data show that there was less of diversification in the livestock sector as reflected by the increasing share of milk group and declining share of meat group and others. That is, there is a concentration in milk group related activities towards 1990s. The share of output from milk group related activities increased from 58.30 per cent in the year 1950-51 to 68.16 per cent in 1990-91. Production of eggs also registered an increase in share from 1.59 per cent to 4.16 per cent between 1950-51 and 1990-91. There has been reduction in the share of other activities which include dung, wool, hair, etc, during the above period.

Several other developments have been taking place in Indian agriculture in recent times. During the last decade, corporatisation of agricultural sector was witnessed in the form of establishing teak farms, orchards, plantations, floriculture, etc. In these enterprises the costs of land, maintenance, etc, are met through public subscription of shares with promises of attractive returns on the investments to the investors. A wide variety of schemes, including schemes of fixed deposits, are being floated. Most of these companies are engaged in developing wastelands. Although most of such ventures are concentrated in teak and other plantations and orchards, new areas are also explored. For instance, goat rearing has been offered for public participation recently by some of the promoters. While the success of such ventures is yet to be established, these schemes are important attempts to combine professionalism of a few with pooled resources from public, thus involving a cross-section of population in agriculture indirectly. The proliferation of such ventures will depend on the willingness of the state governments to amend the land ceiling acts. Two state governments – Madhya Pradesh and Maharashtra – have already taken the initiative to make farm land available for joint ventures. Madhya Pradesh decided in June 1995 to grant case-by-case exemption from land ceiling laws for corporate farming and agro-development projects. Maharashtra allowed the State Farming Corporation (SFC) to take up joint cultivation with private partners. SFC provides land whereas the private partners contribute financial and technical inputs.

Further, there has been a spurt in hi-tech projects in agriculture and allied sectors including horticulture and aquaculture in the 1990s. India ranks first in the world in vegetable and fruit production. The estimated annual production of horticultural products is 100 million tonnes. The export of processed fruits and vegetables has been increasing steadily during the recent years. The value of exports of fruits and vegetable products such as dried and processed vegetables, mango pulp, pickles and other processed products was Rs 206 crore in 1990-91 and has more than doubled within four years, i e, by 1994-95,

to Rs 469 crore. India has vast potential for development of aquaculture, both in inland and marine fisheries. Fish production which stood at 1 7 million tonnes in 1970-71 reached 5 million tonnes by 1993-94. India's export earning from fish production was of the order of Rs 2,000 crore in 1993-94 of which 74 per cent was from export of shrimps. Other emerging commercial ventures are in floriculture mainly confined to cut flowers such as rose, carnation, orchid and wax flowers. Production of hybrid seeds of high value ornamental, indoor foliage plants as well as vegetables are other potential areas. Mushroom production is also gaining importance and about 26 thousand tonnes of buttons were produced in 1994-95. However, disparity across different regions has been observed in the spread of hi-tech projects [for a detailed account, see Puhazhendi 1995].

The various quantifiable indicators that can describe the phenomenon of commercialisation can be classified under two groups – one on the output front and the other on input front. The output front includes proportion of area under cash/commercial crops, share of marketed surplus and so on and the input front indicators are proportion of purchased inputs, intensity of technological inputs, etc. About 16 of such indicators are combined into an index with 1970-71 as base which is given below.

Year	Composite Index
1960-61	31.41
1970-71	100.00
1980-81	164.91
1990-91	261.36

There has been an impressive growth in commercialisation as indicated by the composite index which rose from 31.41 points in 1960-61 to 164.91 points in 1980-81 and further to 262.03 in 1990-91.

The regional/state level pattern suggests (Table 3) that in 1970-71 while Punjab, Tamil Nadu, Haryana, Gujarat, Andhra Pradesh and Uttar Pradesh stood in the first six positions in descending order, states of the eastern region, Madhya Pradesh in north, Maharashtra in the west and Karnataka in the south compared poorly with the all-India average. Although the top ranked states in terms of commercialisation retained their status in 1990-91, the index has come down in almost all states indicating that the inter-state disparity in commercialisation has narrowed down. The states that performed better in improving their position in respect of commercialisation were West Bengal and Orissa in eastern region and Maharashtra in west and the losers were Bihar and Rajasthan.

The growing importance of non-foodgrain crops [Nadkarni 1996 and Sawant and Achuthan 1995] in terms of increase in their share in area over time would have seriously thwarted our food security system had it not been for the introduction of green revolution technology in 1967-68 which brought forth impressive improvements in crop yields. As a result, foodgrain output increased and with it market arrivals. Crops such as rice and wheat have attained a commercial status and have been substituted for other uneconomical crops on a large scale. This had a positive influence on our food security despite a growing population. We could stock adequate buffer of foodgrains too.

Table 3 Composite Index of Commercialisation in Major States

State	1970-71	Rank	1990-91	Rank
Southern Region				
Andhra Pradesh	122	5	114	5
Kerala	93	9	85	8
Karnataka	79	11	77	12
Tamil Nadu	184	2	138	2
Eastern Region				
Bihar	99	7	83	10
Orissa	55	14	65	14
West Bengal	76	12	85	9
Northern Region				
Haryana	154	3	135	3
Madhya Pradesh	76	13	74	13
Punjab	214	1	170	1
Uttar Pradesh	106	6	106	6
Western Region				
Maharashtra	92	10	93	7
Rajasthan	97	8	81	11
Gujarat	132	4	131	4
All India	100		100	

Important changes in the agricultural sector that positively influenced our food security were increasing share of livestock and fishery products on the one hand and increase in the share of fruits and vegetables in the total food supply basket. These developments improved the availability of animal protein as well as fruits and vegetables in the Indian diet.

Increase in household income and change in consumption pattern in terms of nutritive values are natural consequences of commercialisation. Based on preliminary data from a study conducted in developing countries, Bouis (1995) concludes that commercialisation has increased income levels in almost all the developing countries which in turn has led to higher calorie intake. There is little evidence that commercialisation *per se* has altered consumption behaviour in a manner that is detrimental to proper nutrition. Greater dependence on the market for food has not led to higher cost per calorie intake. India's experience seems to be different since the increase in level of food security came in the wake of commercialisation mainly via increased food supply. Improving food security level in the Indian way seems to be better since it will not lead to dependence on imports.

Before concluding, we share the concern of M V Nadkarni over the entry of educated people (we may call them 'urban farmers') in agriculture. In this context it may be mentioned that hi-tech agricultural projects demand technical and managerial expertise besides being highly capital-intensive and hence the average farmer is debarred from actively participating in the commercialisation process of the current decade. Only co-operative ventures would allow their participation.

Table 1: Shares of Different Subsectors in Total Income from Agriculture

(Percentages)

	1950-51	1960-61	1970-71	1980-81	1990-91
Crop sector	79 50	81.91	79.64	74.77	73.90
Livestock	8.36	8.23	9.71	16.27	19.00
Forestry and logging	10.91	8 31	8.91	6.99	4.73
Fishing	1.23	1.55	1.74	1.97	2.37
Total	100.00	100 00	100.00	100.00	100.00

Source: Government of India, Central Statistical Organisation (CSO), *National Accounts Statistics*, 1992 and 1994.

Table 2: Composition of Value of Output from Livestock

(Percentages)

Item	1950-51	1960-61	1970-71	1980-81	1990-91
Milk group	58.30	56.39	60.17	64.96	68.16
Meat group	18.97	19.08	17.11	14.82	15.55
Eggs	1.59	2.01	2.58	3.31	4.16
Others	21.14	22.52	20.14	16.91	12.13
Total	100.00	100.00	100.00	100.00	100.00

Source: Same as of Table 1.

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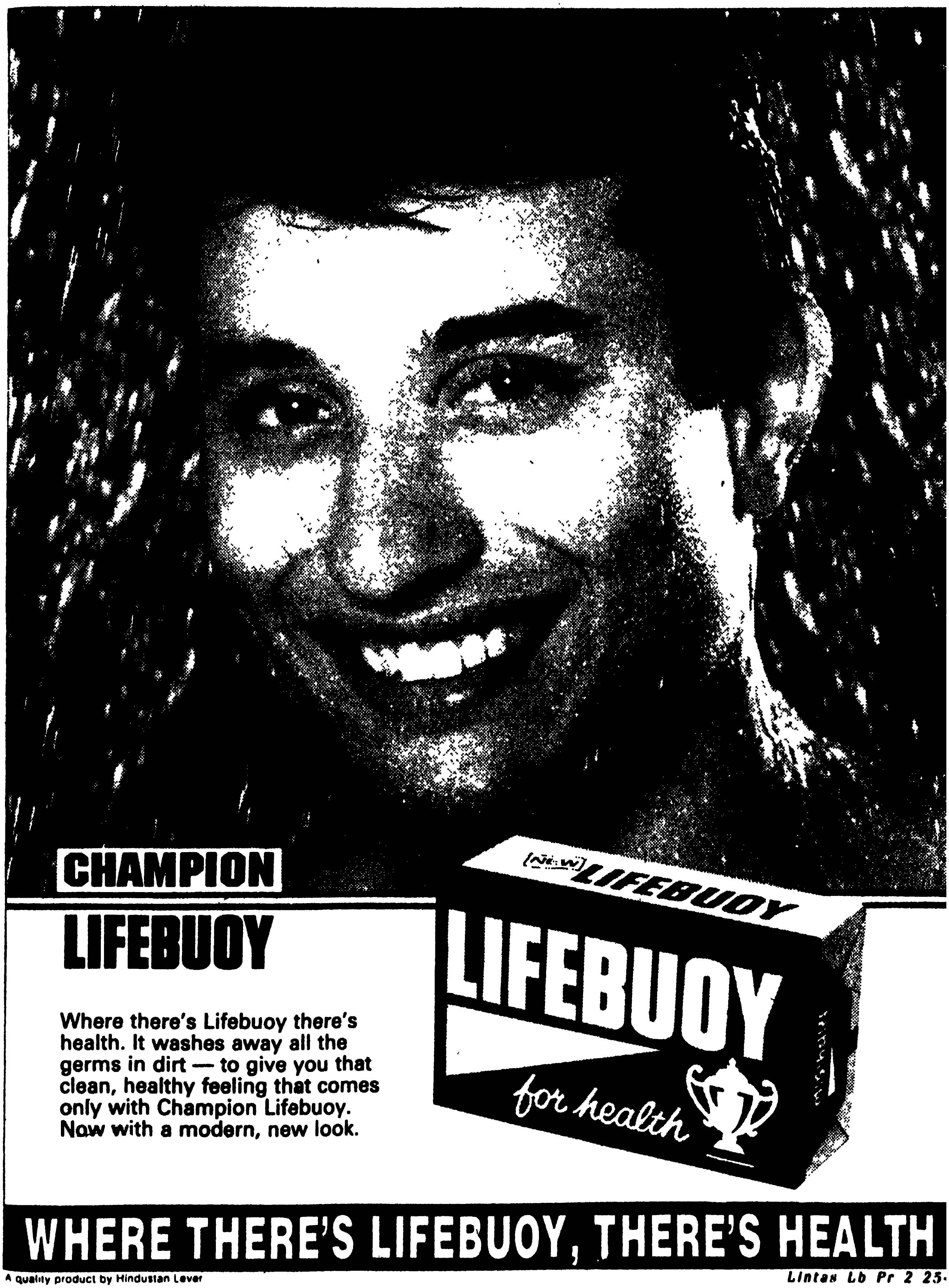

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Unstable Economy and Ineffective Policies

A comparison of the trends and the amplitude of fluctuations in several key macro-economic variables in the pre- and post-1991 periods suggests increasing economic instability which encourages speculative activity, especially with financial sector liberalisation and the opening up of the economy. At the same time, the nature of state intervention under the new economic policies has reduced policy effectiveness in controlling and coping with the increased economic fluctuations. **3061**

Gender and Development

The ideologies of globalisation and structural adjustment seek to make one deaf to the immediate past and to anything that does not speak in the language of efficiency. However, the contemporary changes overtaking us, disturbing as they are, also harbour the possibility of bringing our political and intellectual engagements on to new and fruitful terrain. For those who have been working at the interface of gender and development, it is time to refigure their priorities, not by secluding themselves within some putative 'pure' economy, but by broadening feminist conceptions of the economy itself. **3071**

Bioresources Policy

Now that bioresources are becoming a highly sought after raw material in the era of biotechnology, we must create a framework for the just and proper use of and appropriate payment for indigenous technology. This calls for a comprehensive national policy. **3043**

Growing Distances

The 'globalisation' of the world is inevitable; new technology has already brought it about. But we must all bend our minds to determining how the benefits of new technology can be reached to the entire humankind, instead of increasing the distances between nations and peoples. **3039**

US and South Asia

The United States' South Asia policy of favouring Pakistan embodied the flaws and misconceptions inherent in the doctrine of containment. But succumbing, even in the post-cold war period, to the various parochial interests that profit from a perpetuation of the cold war subculture weakens peace, prosperity and political stability in South Asia. **3078**

Research for Policy

T N Krishnan, who died in Thiruvananthapuram on September 7, was of the firm view that his research, which encompassed food policy, literacy, health, fertility behaviour and social security, should not just end up in the annals of academia but must be used to change and improve policy. **3047**

For Capital Only

While the OECD countries have proposed the Multilateral Agreement on Investment, the opportunities open to the poor countries for exporting labour services have been crippled by the GATT-Uruguay Round. The developing countries as a group must focus on this asymmetry at next month's WTO Ministerial Conference and in subsequent rounds of WTO negotiations. **3045**

Ethnicity and Pakistani State

The continuing ethnic tensions in Pakistan are rooted in a number of developments: the growing ethnic heterogeneity of the country's provinces, the increasing economic and political interdependence, the ongoing processes of rapid urbanisation and cultural homogenisation and the sharpening ethnic asymmetries within the elite. These very developments, however, offer the opportunity for seeking solutions within a multi-ethnic framework. **3050**

Chiapas Uprising

What made the Chiapas uprising appear novel was its timing – it occurred during a period of worldwide leftist retreat and in particular at a moment when other central American guerrilla movements were laying down their arms and entering into political deals with the neo-liberals in power. **3054**

LETTERS TO EDITOR

Symposium on Sardar Sarovar

THE controversy over the Narmada dams is nowhere close to being resolved, but we may soon find that the river has been injured beyond our capacity to heal it. Life on its banks is already under deep stress, and an injured Narmada cannot protect it from further decay The Bargi dam has now shown its power of unmaking for five years, and the Sardar Sarovar dam – incomplete though it is – has given more than a glimpse of what words like 'submergence' and 'displacement' mean.

Some of us who have been to the environs of the Sardar Sarovar dam feel that a personal experience of its geography has no substitute. What the river and the hills (Vindhya and Satpura), through which it flows, mean to the people who live beside it cannot be appreciated without going to Manibeli, Jalsindhi or the other villages staring at death in the shadow of the dam. This feeling has prompted us to make an appeal to our colleagues in literature, the arts, the academia and the media to visit the Narmada valley at Sardar Sarovar this winter We believe that this community will respond to our appeal in view of the status of the Narmada as a river in India's geography and its value as a symbol of the struggle to establish democratic dialogue and rights.

This appeal will be formally made at a symposium to be held on November 24 at Teen Murti Auditorium, New Delhi. It will focus on two texts which summarise the problem with Sardar Sarovar in simple, human terms. The first is the text of a letter dictated by Bawa Mahana of Jalsindhi village inhabited by people of the Bhilala tribe. Originally in Bhilali, this letter was addressed to the chief minister of Madhya Pradesh in 1994. The other text is a letter written by Bradford Morse and Thomas R Berger to the president of the World Bank in 1992 as a foreword to the Independent Review of the Sardar Sarovar Project. It may be recalled that the late Morse was the chairman of this review committee and Berger was the deputy chairman. This review committee was appointed by the World Bank as a consequence of the pressure generated worldwide by environment groups and by the ongoing struggle in the Narmada valley, for an independent re-examination of the Narmada projects. The World Bank had to finally withdraw its support to the Sardar Sarovar Project in 1993.

The symposium is likely to be a full day event. Members of the audience will be requested to participate in the dialogue. A documentary film by Anand Patwardhan and Seemantini Dhuru, *Narmada Diary*, will be shown prior to the dialogue.

This symposium is not about the customary debate on big dams or models of development. Therefore it requires us to beware of our usual reflexes which get expressed in expected ways in questions such as 'what is the alternative?', 'what other sources do we have for electricity, water, etc?'

Habib Tanvir, Anand Patwardhan, Manjit Bawa, Teji Grover, Rajendra Yadav, Krishna Kumar

Delhi

Hindus and Muslims

RAMASWAMY R IYER's 'Hindus and Muslims: Towards a New *Modus Vivendi*' (*EPW*, July 27) not only breaks new original ground, it is transparent and proposes an agenda of real issues for action. The analysis of the distorted usage of terms like 'secularism', 'communalism', 'Hindutva' clears the air and may create the conducive environment for fruitful dialogues. One must caution against trying to create a unified religio-cultural ethos or fusion, which must come from within and cannot be externally imposed There has been too much talk in recent years of a separate Muslim identity which supersedes nationalism, so that in the words of the erudite Syed Shahabuddin, we have 'Muslim Indians' and not 'Indian Muslims' To balance this we have exaggerated notions of the inherent tolerance in the very nature of Hindu religion and philosophy, providing space for other faiths to thrive. The author takes into consideration all these aspects in proposing the agenda.

The moot question now is the *modus operandi*. The so-called secular parties, e g, Congress and most of the UF constituents rule themselves out for such dialogues because of either their vote-bank politics or promotion of caste interests. Union minister C M Ibrahim reportedly recently led a delegation of Mumbai Muslim leaders for a dialogue with Bal Thackeray and the Shiv Sena. Rumours have it that Mumbai Muslims are happier with the Shiv Sena-BJP administration than they were with the preceding Congress administration. This is of course a chance coincidence with the appearance of Iyer's article. There is need for discussion on the appropriate *modus operandi* at village, community, city, state and national levels. A related question is whether only a ruling group dominated by the Hindus can effectively negotiate and solve problems with Pakistan and Bangladesh – proclaimed Muslim states?

S Nanjundan

New Delhi

Tirade against Hussain

WE strongly protest against Sangh parivar's tirade against Hussain's paintings 'Saraswati' and 'Draupadi' on the grounds that Hindu goddesses have been shown in obscene postures. Also they are giving it a communal colour by projecting that Hussain, a Muslim, is hurting Hindu sentiments. They are calling him a 'traitor'. They have also gone on a rampage and destroyed his paintings in Ahmedabad.

The treatment being meted out to Hussain is quite akin to the fascist-Nazi attitude towards artists. This is an attack on the freedom of expression of an artist. Hussain has been painting similar motifs since long, but it is now that these fundamentalists are making an issue of this painting by Hussain This is in line with the fascist-fundamentalist attacks on secular and liberal ethos of our society, which was manifested earlier by their call to ban Rushdie's *Moore's Last Sigh*, their pre-censoring of the film 'Bombay', and their blackening of the face of one of the actors of the play 'Ram Bharose' in Pune

We condemn this attempt to tarnish the image of a creative artist for narrow communal goals. We also condemn the attack on freedom of expression of artists and protest against this onslaught on liberal culture of our society. We suspect that their dastardly acts are being engineered to distract the attention of society from the mess created by the Ramesh Kini case and Sarpotdar's revelations before the Srikrishna Commission inquiry. We also condemn the police attitude in registering a case against Hussain even as their complicity in the Mumbai riots is being exposed in Srikrishna Commission's proceedings

Uday Mehta, Vrijendra, Irfan Engineer, P R Ram

Ekta Samiti
Mumbai

Correction

In the article 'Contextual Social Science: Or Crossing Boundaries' by Amiya Kumar Bagchi (October 26) the last sentence of column three on page 2880 should read "In China, Hong Kong, Taiwan and South Korea, for example, rapid fertility transition has been accompanied by an increasing ratio of males to females at birth" instead of "... an increasing ratio of females to males at birth". The error is regretted.

Ed

ECONOMIC AND POLITICAL WEEKLY

Corporate Myths and Fairy Tales

CORPORATE India has assiduously propagated a number of myths. One is that much of its surpluses are drained by corrupt politicians and bureaucrats who control the regulatory apparatus. A second is that this combination of regulation and graft has often necessitated 'inefficient' decisions on its part. And third that, despite these constraints, big business has managed to eke out a profit based on sheer professional competence and good corporate governance.

The evidence yielded by investigations of alleged tax and foreign exchange law violations by ITC – one of the country's much-acclaimed blue chip companies – seems to subvert all these well cultivated myths. The findings emerging from investigations still under way read like a conspiracy off the pages of a corporate thriller. Senior ITC managers, exploiting the manoeuvrability that the 'imported' ITC brand, exclusive lifestyles and a self-created image of efficiency provided, chose to accumulate large foreign exchange holdings abroad. This process of accumulation was by means of alleged illegitimate practices such as over-invoicing of imports or insider trading in ITC's own GDRs. The illegally accumulated foreign exchange was then used to meet various foreign exchange 'expenditures', including personal expenses of senior executives, losses in international operations which the ITC management was unwilling to declare for fear of being judged harshly, and payments for over-invoiced exports from Indian branches of the ITC group which could thereby record non-taxable profits. The funds were paid out to and disbursed for these purposes by companies belonging to an NRI group (the Chitalias) which was virtually set up by the ITC management. According to the evidence reported thus far, the illegitimately accumulated funds were transferred to the Chitalias so that they could make a range of payments at ITC's behest. These payments included an inexplicable 'compensation' to NRI investors in the ITC-promoted Bukhara chain of restaurants, in lieu of losses incurred by the latter on a voluntary investment risk they took. They also involved payments back to ITC companies in India, which over-invoiced their exports to the Chitalia companies. These exports were sold by the Chitalias to third parties at a lower, pre-negotiated price and the difference made up by transfers from the ITC pool of 'surplus'.

This complex operation involving a number of ITC, Chitalia and third-party companies proved difficult for the elite ITC management to pull off. The evidence allegedly suggests that large losses were incurred on both investments made, as in the case of the Bukhara chain, as well as in trade deals. With the losses exceeding the sums being accumulated abroad, ITC could not transfer adequate funds to the Chitalias to meet the costs of the services they were rendering. In response, the ITC management allegedly behaved like a group of 'rogue traders', speculatively ordering the transfer of payments received by the Chitalias on the sale of new exports to meet losses on past exports, in the hope that the difference could be made up in the future. This it was hoped would help keep the lid on the mismanaged operation. Unfortunately, ITC was soon under considerable pressure from the RBI to remit what were fake export earnings from abroad and from the Chitalias wanting to be compensated for the services they were rendering. In a panic move ITC entered into a legal battle with the Chitalias, which soured their cozy relationship and found the latter turning approvers in an Indian government investigation into alleged FERA violations which finally opened up the can of worms

But this is not all. It now transpires that transnational BAT Plc, which holds a 31.5 per cent equity in the company, was not just aware of but was perhaps even involved in many of these transactions. This could explain why it did not call the bluff when former chairman K L Chugh sought to retain management control by launching a 'nationalist offensive' against BAT's attempt to increase its equity holding to 51 per cent. Further, even the nominated directors of the financial institutions, holding another 36 per cent of the equity, were aware of the goings on, at least after an audit committee report by accountants Lovelock & Lewes had exposed the allegedly criminal international dealings. These extensions of the state chose to ignore for some time dealings that deprived the government of large sums of revenues.

There are a number of revealing aspects to this evidence. First, if ill-gotten fortunes were being sought to be amassed in these operations, it was because the managers of a successful high-profile company were resorting to a process of 'primitive accumulation' at the expense of the state and not because politicians were providing the company the cream they wanted to skim. The mechanism involved transferring profits abroad by over-invoicing equipment imports. The foreign exchange thus accumulated abroad was brought back into the country by over-invoicing exports and shoring up the company's tax-free export revenues. In the process higher post-tax profits were booked at the expense of the government. Second, government regulation could not have motivated these transactions, nor did it serve to prevent them. Almost all the reported deals took place during the years of reform, when tax rates were lowered and the trade and foreign exchange regimes were substantially liberalised. Even to the extent that the government was present as shareholder, its representatives did not exercise their rights or fulfil their duties. If anything, the absence rather than the

presence of real intervention could explain the episode. Finally, to the extent that the ITC management chose to do what it did, it needs to be noted that it made a hash of the whole operation, revealing its incompetence in any area outside that of exploiting its inherited brand image. These lessons from the ITC episode make nonsense of the corporate myths mentioned at the beginning.

In fact, a plausible argument yielded by the evidence is that even some of the 'best' in corporate India make their profits by garnering illegitimate transfers from the state and by buying out and exploiting the regulatory apparatus of the state. It is the same behaviour that prevails both before and after the reform, though the sites of accumulation within a terrain provided by the state shift with liberalisation. This implies that there was and is no force which 'disciplines' Indian capital, forcing it to run a professional operation, innovate and engage international markets. Reform instead of attempting to enforce that discipline uses the market as a cloak for permitting more of the same

SHARED RIVERS

Unequal Arrangements

ON inter-state disputes over the sharing of water between riparian states, the Sarkaria Commission had recommended that the union government should have the power to appoint a tribunal *suo motu*, if necessary. In addition, the union government should be obliged to appoint a tribunal within one year of an application by a disputant state. In either case, however, the award of the tribunal should, according to the commission, be as binding as an order of the Supreme Court For this purpose, the commission recommended appropriate amendments to the existing union legislation.

Interestingly, two altogether opposite views were put forth on this subject at the Inter-State Council's meeting on October 15. Andhra Pradesh expressed the view that the Sarkaria Commission's recommendations were "too sweeping" and required "to be moderated". It was particularly concerned to ensure that the recommendations of the commission "should not be taken advantage of by the states to reopen settled issues". More specifically, Andhra Pradesh felt that "it is the lower riparian states who, as a class, stand to suffer the most" and so wanted that "the right to approach the centre for the constitution of a tribunal should be limited only to the lower riparian states".

Exactly the opposite view was voiced by Kerala which, as an upper riparian state contributing some 20 per cent of the surface flow of the Kaveri, asserted that its people had "legitimate claim to a major portion of their contribution to the water of the Kaveri, be it for irrigation or power". It called for "equitable apportionment of waters of an inter-state river" and rejected the demand for apportionment on the basis of "prior use or present demand for water". That the "lower riparians have been using waters of a river for hundreds of years" does not entitle them to these waters "more than upper riparians", claimed the chief minister of Kerala. According to him, "with the advancement of technology in the field of irrigation, even the uppermost riparian states could use all the water at their disposal". Of course, Kerala found fault with the centre also for its "persistent refusal to grant clearance" to one of its projects entailing use of a small part of the Kaveri waters within its jurisdiction, while "Karnataka presses ahead" with its project downstream.

Rather interestingly, Karnataka's chief minister chose to be somewhat tongue-tied on the subject, except to say that he could not persuade himself to agree with the recommendations of the Sarkaria Commission on the proposed amendments to the existing legislation. He preferred to emphasise "the desirability and feasibility of settling the differences by mutual discussions" between the concerned states and referred in this context to the centre's initiative to appoint a commission "whose recommendations would be a prelude to formulating the guidelines for a National Water Policy". Karnataka is silent on what principles should govern water sharing between upper and lower riparian states. Obviously, it too, like Andhra Pradesh, would prefer not to let old settled arrangements to be reopened. But what about the states which feel strongly that the so-called settled arrangements treated them unfairly and would not rest until these arrangements are reviewed and re-negotiated? Against this background, the new commission may well be an exercise of the type governments resort to all too often in order to put a contentious issue on the back-burner for as long as possible.

THE ECONOMY

Changing Foreign Liabilities

THERE have been significant changes in the composition of capital flows to the developing countries in recent years – from official to private flows and from debt to non-debt flows. Even private debt flows now largely take the form of marketable bonds. Non-debt flows to the developing countries were $ 28.3 bn in 1990 or less than 40 per cent of the total debt flows of $ 73.2 bn. By 1995 non-debt flows had reached $ 112.3 bn and were 94 per cent of the debt flows of $ 119 bn in that year. The stock of FDI in developing countries is estimated to have more than doubled from $ 300 bn to $ 620 bn between 1990 and 1995.

It is thus not enough any longer to look only at a country's external debt; what is necessary is an assessment of its external liabilities as a whole. The release by the Reserve Bank of the results of its latest Census of India's Foreign Liabilities and Assets as on March 31, 1992 is, therefore, to be welcomed. The census is undertaken by the RBI quinquennially, the last one being for March 31, 1987, though there was a long break between 1961 and 1987 when instead annual assessments were undertaken of foreign liabilities (almost comprehensive) and foreign assets (only for the official sector and not the corporate and banking sectors). The annual assessments continue to be made between the census years. Thus the latest census report also presents data on foreign liabilities and assets based on the annual assessment as of March 31, 1993.

As per the census, India's foreign liabilities were Rs 2,70,799 crore ($ 86,723 mn) as on March 31, 1992 compared with Rs 62,116 crore ($ 48,197 mn) on March 31, 1987. However, while the former figure includes non-civilian (defence) debt, the latter does not. Inclusive of such debt, the figure for March 1987 may have been of the order of Rs 79,000 crore or $ 58,000 mn. There was a further growth in foreign liabilities to Rs 2,90,988 crore ($ 93,160 mn) on March 31, 1993 as per the latest annual assessment. Thus between March 1987 and March 1993 total foreign liabilities rose by 61 per cent in dollar terms and 268 per cent in rupees. The dollar itself depreciated by 10 to 12 per cent in terms of the SDR during the six-year period. Considering that the depreciation of the rupee *vis-a-vis* the dollar was about 142 per cent over the six years, whereas the effective exchange rate of the rupee in nominal terms depreciated by only 46 per cent, the different configurations of currencies involved in the country's foreign liabilities may be such that the increase in the country's liabilities would be much more than 61 per cent if the currencies were appropriately weighted to work out the effective increases in the liabilities. Besides, the RBI's data underestimate foreign liabilities in one respect – they take foreign investment in shares and debentures at face value in rupees, whereas the investment should be valued at market prices (though to an extent the inclusion of free reserves and surplus in respect of individual companies makes up for this). All the same, aggregate foreign liabilities have gone up from 27 per cent of GDP in 1986-87 to 41 per cent in 1992-93.

Of the aggregate liabilities of Rs 2,90,988 crore, foreign debt was Rs 2,82,103 crore or 96.9 per cent. Of the balance, Rs 6,403 crore comprised FDI and portfolio investment of the corporate sector, Rs 1,312 crore represented vostro accounts of banks and Rs 1,170 crore were liabilities of insurance companies in the form of LIC's actuarial reserve value payable to non-residents and reinsurance business and outstanding claims of the GIC. Official liabilities constituted Rs 1,70,485 crore or 58.6 per cent of aggregate foreign liabilities of Rs 2,90,988 crore (including non-civilian debt), the balance being accounted for by the corporate sector (Rs 67,257 crore or 23.1 per cent), the banking sector (Rs 52,076 crore or 17.9 per cent) and the insurance sector (Rs 1,170 crore or 0.4 per cent).

Foreign assets held by official and non-official agencies constituted 13-14 per cent of aggregate liabilities. Official non-gold foreign exchange reserves accounted for nearly 70 per cent of total foreign assets, the balance being the corporate sector's deferred export receipts, investment and balances held abroad and miscellaneous assets and the banking sector's nostro accounts and insurance companies' assets. Direct foreign investment by the Indian corporate sector was about Rs 770 crore or 10.3 per cent of the corporate sector's total foreign assets of Rs 7,483 crore at the end of March 1992.

The data from this census do not, of course, capture the major qualitative changes in the country's foreign liabilities as a consequence of the economic reforms which have occurred in the more recent period. On the one hand, with the sharp reduction in short-term debt, including foreign currency deposits of up to one-year maturity, total external debt, which had increased from $ 83.30 bn (Rs 1,63,001 crore) at the end of March 1991 to $ 99 bn (Rs 3,11,792 crore) at the end of March 1995, came down to $ 91.2 bn (Rs 3,13,272 crore) at the end of March 1996 (partly also due to the appreciation of the dollar). Simultaneously, there has been a significant rise in FDI and portfolio investment. Between 1993-94 and 1996-97 (so far), the addition to liabilities on this count has been $ 17.5 bn or over Rs 60,000 crore. The profile of the country's foreign liabilities is thus undergoing a significant change in favour of non-debt liabilities, leading to growing pressures on the external sector. If only for this reason, it is to be hoped that the RBI would further strengthen its monitoring arrangements, including periodical surveys of foreign collaboration agreements so that we get, on an on-going basis, a reliable assessment of the costs and benefits of foreign technical and financial collaborations. Besides, as between FDI and portfolio flows, the latter has outstripped the former. Of the inflow of $ 17.5 bn, only about $ 6 bn would be FDI, the balance of $ 11.5 bn being in the form of GDRs, FIIs' portfolio investment and offshore funds, etc. There is little systematic information at present on the distribution of these inflows by industries and by secondary and primary markets, on gross sales and purchases, on capital appreciation and yields realised, on lock-in periods and so on. It would be of great value if the RBI were to put together periodically, with the help of SEBI, a fuller profile of the portfolio investments of FIIs.

DEVELOPMENT AND DISPLACEMENT

Airy-Fairy Policies

IN one of the latest World Bank interventions in the Indian economy, two major projects in the coal sector are being finalised, which when implemented will oust some 18,000 villagers from their homes and lead to the retrenchment of a huge number of the current staff of Coal India – apart from having far-reaching implications for India's coal economy.

The two projects are linked with each other, with one aimed at financial rehabilitation, funded by a $ 500 mn loan from the IBRD, and the other for the mitigation of environmental and social impact, supported by a $ 63 mn IDA credit. The World Bank has selected 25 open cast mines in eastern India for modernisation under these projects. It is being claimed that with their successful implementation, Coal India's annual production will go up. As part of overall modernisation of Coal India, they will contribute to the projected increase in annual production to about 320 mn tons by the year 2004. While the IDA-funded project has already been discussed by the Bank's Executive Board, the more important, and expensive, IBRD-funded project is coming up before the board in December.

The IBRD loan of $ 500 mn is linked with certain conditions, the following among which are significant: firstly, liberalisation of coal imports and reduction of coal import duty from 85 to 30 per cent to begin with; secondly, retrenchment of about 2,00,000 workers (regarded as surplus by the World Bank) out of Coal India's current staff of 6,76,000 which, according to Indian voluntary organisations, will affect mainly women workers; and thirdly, the opening of the coal sector to private investors to allow them to invest in new ventures.

Although Coal India's Environmental Impact Assessment Report promises new employment opportunities, access to health care and education, provision of facilities like roads, power, water, and electricity, to the oustees, past experience has revealed that most of these promised amenities never reach the project-affected people. The latest IBRD-funded project will negatively affect 18,225 people, of which 10,928 will have to be resettled. Indirectly, in terms of livelihood and subsidiary occupations being followed by people in the affected area, it is likely to affect a larger number. At least 28 per cent of the affected persons are tribals. It may be recalled in this connection that the government of India-appointed committee on 'Rehabilitation of Tribals Displaced Due to Development Projects' in its report in 1985 had disclosed that less than 35 per cent of displaced people in the coal sector had been effectively rehabilitated. Further, the Operation Evaluation Department of the World Bank itself, while reporting on resettlement in 1993, admitted that "in India, the overall record is poor to the extent of being unacceptable".

Acknowledging that it is not possible either to give 'land for land' as compensation to the oustees or to offer enough jobs to all of them (only 2,803 jobs can be provided to the affected people), Coal India has hit upon an alternative package of self-employment schemes, under which these people will be given assistance to develop such options as engaging in dairy and poultry production, setting up shops and undertaking petty contracts, etc. But these schemes have been found to be non-viable in the past in most project-affected areas. Here again, the World Bank itself admitted in its review of projects involving resettlement during 1986-93, in a report that came out in 1994, that its experience with employment generation in resettlement cases "holds few clear signals on how to produce sustained development for the [displaced] people, especially when many of them have few of the skills needed for off-farm work".

The totally unimaginative rehabilitation and resettlement policy, which is completely divorced from the ground reality, has apparently been formulated without any close dialogue with the people who are going to be affected by the World Bank projects. As two local NGOs, the Jharkhand Janadhikar Manch (JJM) and the Chotanagpur Adivasi Sewa Samiti (CASS), have pointed out in their memorandum to the World Bank, the peculiar culture of the coalfields vitiates the possibility of real rehabilitation: "This culture is marked by the large amounts of money suddenly being available, inward migration into the area, political patronage, a close nexus between politicians and contractors, illiteracy..., the selling of illegal coal, co-opting resistance into the coal black market, unemployment, idleness, caste tensions..."

The success of the World Bank mining projects in boosting coal production will in course of time throw more and more people into the folds of the culture described above.

CENTRALLY-SPONSORED SCHEMES

Round the Mulberry Bush

A SUBJECT on which the states were more or less unanimous at the meeting of the Inter-State Council on October 15 was centrally-sponsored schemes. The Sarkaria Commission itself had felt that while these schemes may not be done away with altogether, they "should be kept to the minimum in relation to the central assistance for the state plans", with the ratio to be determined by the National Development Council from time to time. According to the commission, while the union government may initiate pilot projects in state subjects with "inter-state, regional or overall countrywide significance but carrying high national priority", these projects should be formulated in prior consultation with the states and "once a programme has passed the pilot stage and has been accepted as desirable for implementation on a larger scale, it should appropriately form part of the state plan". Also, centrally-sponsored schemes should not be normally started in the middle of a Five-Year Plan.

At the recent meeting of the Inter-State Council, if there was divergence of views among the states on this subject it was on whether the centrally-sponsored schemes should be done away with altogether or be severely curtailed; there was no disagreement at all on keeping them to the minimum. Thus, while West Bengal was unreservedly for their abolition and suggested "transfer with funds of all centrally-sponsored schemes in state subjects to the states", and Kerala advocated "drastic reduction in amounts allocated" for such schemes "so that with increased untied assistance the states can pursue their own development priorities", Karnataka, though regretting how these schemes had "ballooned with a vengeance as it were" after their number had been drastically cut (from 2,600 to 66) during the 1970s and arguing for these schemes to be "drastically pruned", felt that "as recommended by the Ramamurthy Committee and others, such schemes should strictly be restricted to not more than one-sixth of the central assistance".

Interestingly, or rather intriguingly, neither the opening statement of the prime minister and the home minister nor what the finance minister had to say in the course of his intervention throws any light on the centre's thinking on the subject. The Common Minimum Programme did speak of transferring "most centrally-sponsored schemes to the control of the state governments", but the phraseology used is subject to varying interpretations. Will the centre give up the past practice of having centrally-sponsored schemes in the Ninth Plan? If not altogether, to what extent will the curtailment go? Will this curtailment be more in terms of numbers than the amount, as happened in the 1970s? The Common Minimum Programme speaks of abolishing poverty by the year 2005 and strengthening anti-poverty programmes and providing larger funds for a programme guaranteeing 100 days of employment for every unemployed person. It speaks also of the centre's responsibility to ensure access to drinking water and providing a shelter to every family by 2005. In the light of these statements it is not clear that the present central government is serious about winding down centrally-sponsored schemes, notwithstanding the strong demand from the states for their drastic curtailment.

IMF

Evading the Issue

THE Washington meeting of the IMF's Interim Committee is supposed to have "produced a consensus on the commitment of additional financial resources to enable the IMF to fulfil its mandate in the increasingly globalised economy". The question to ask is what concretely is it that the Washington consensus adds up to. Three things have been mentioned in this connection: one concerns the quota increase, the other relates to the borrowed resources of the General Arrangements to Borrow (GAB), and the third pertains to SDR allocation. Let us see what exactly the ministers gathered in Washington agreed to.

On quota increase, the question has been on the anvil for quite some time already as part of the so-called Eleventh General Review. IMF managing director Michel Camdessus did remind the ministers that the Fund's liquidity ratio, defined as the ratio of usable financial resources to liquid liabilities, "was expected to fall below what has traditionally been regarded as the critical threshold of 70 per cent by the end of 1997 – the ratio's lowest level since 1983" and he did emphasise "how important it was for the IMF to maintain sufficient liquidity to give confidence to all members". In order to maintain the size of the IMF relative to the world economy, a quota increase of 100 bn SDRs over the current level of 140 bn SDRs was advocated by him. But what did the ministers agree to? All that Camdessus could report at the end of the day in regard to the Interim Committee's decision on quota increase was a call for "action to reach a conclusion" "as soon as possible". No time-table has been announced. No deadline has been set either.

On the other hand, on the question of doubling the resources of GAB to SDR 34 bn, which has been hanging fire since the aftermath of the Mexican crisis, some advance may be said to have been made in the sense that at long last the ministers endorsed the proposed increase and asked the Fund's executive board "to complete the work promptly". As regards new SDR allocation, all that was agreed to was to ask the executive board of the Fund "to work on an amendment to the Fund's Articles" which will enable a one-time allocation of SDRs based on "a common benchmark ratio of cumulative allocations to present quotas" – something that could possibly involve a fresh allotment of between SDR 16 and 26 bn. The board has been asked to finalise this amendment "by the time of the committee's next meeting".

Thus when one tries to add up, all that can be hoped for in the next six months to one year is enhancement of the GAB and a one-time allocation of SDRs, but no quota increase, howsoever inadequate the size of the IMF may have become relative to the world economy.

Nearly $25 bn (Rs 81,690 crore) worth FDI approvals have been granted up to August. Of these, the bulk have gone into basic industries (34 per cent) including power, oil refinery, metals and chemicals and services (38 per cent) including telecommunications. Consumer non-durable industries have accounted for 13 per cent, while capital goods industries have attracted only about 10 per cent (even that may be an exaggeration as some items included under capital goods may in fact be consumer durables). Sourcewise, next to the US and South Korea, Mauritius tops the list because of its tax haven status. Delhi absorbs 23 per cent of FDI followed by Maharashtra's 15 per cent. Actual FDI flow since 1991 has reached Rs 17,880 crore or over $ 5 bn

Macroeconomic Indicators

Index Numbers of Wholesale Prices (1981-82 = 100)	Weights	Nov 2, 1996	Variation (Per Cent): Point-to-Point: Over Month	Over 12 Months: Latest	Over 12 Months: Previous	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
All Commodities	100.0	318.6	0.5	6.5	8.8	6.4	4.9	5.0	10.4	10.8	7.0
Primary Articles	32.3	334.2	1.3	7.8	9.8	8.5	6.1	5.4	12.7	11.5	3.0
Food Articles	17.4	382.9	3.2	11.0	8.6	11.1	9.9	9.8	11.9	4.4	5.4
Non-Food Articles	10.1	334.9	-1.8	3.4	13.0	5.5	0.1	-1.9	15.5	24.9	-1.4
Fuel, Power, Light and Lubricants	10.7	330.0	0.0	16.1	1.0	11.8	0.1	3.7	2.4	13.1	15.2
Manufactured Products	57.0	307.6	0.2	4.0	9.8	4.1	5.2	5.0	10.7	9.9	7.9
Food Products	10.1	305.4	-1.0	7.8	4.7	12.8	4.0	-0.7	8.1	12.3	6.8
Food Index (computed)	27.5	354.4	1.8	10.0	7.3	11.6	7.9	6.3	10.6	7.0	5.8
All Commodities (Average Basis) (April 6-November 2, 1996)	100.0	310.8	–	5.6	9.8	5.7	9.0	7.8	10.9	8.3	10.1

Cost of Living Indices	Latest Month	Variation (Per Cent): Point-to-Point: Over Month	Over 12 Months: Latest	Over 12 Months: Previous	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
Industrial Workers (1982=100)	344^{9}	0.3	8.5	10.1	7.8	8.2	8.9	9.7	9.9	6.1
Urban Non-Man Emp (1984-85=100) (for 1995-96)	263^{10}	0.8	9.6	10.1	7.8	8.1	–	9.9	8.3	6.8
Agri Lab (1986-87=100) (Link factor 5.89)	256^{8}	1.6	7.1	14.4	8.0	8.1	*7.2	11.1	11.2	0.6

Money and Banking (Rs crore)	Oct 25, 1996	Variation: Over Month	Fiscal Year so far: 1996-97	Fiscal Year so far: 1995-96	1995-96	1994-95	1993-94
Money Supply (M_3)	646549	7135 (1.1)	44713 (7.4)	30271 (5.7)	70410 (13.2)	79241 (17.5)	73307 (19.3)
Currency with Public	123546	3852 (3.2)	5385 (4.6)	12265 (12.2)	17480 (17.4)	18698 (22.8)	14170 (20.9)
Deposits with Banks	515700	1976 (0.4)	35365 (7.4)	15450 (3.6)	52973 (12.4)	59685 (16.2)	57925 (18.7)
Net Bank Credit to Govt	276960	3990 (1.5)	19550 (7.6)	20623 (9.3)	34991 (15.7)	16328 (7.9)	28855 (16.3)
Bank Credit to Comml Sector	346848	4643 (1.4)	5946 (1.7)	17846 (6.1)	48179 (16.5)	48059 (19.6)	17161 (7.5)
Net Foreign Exchange Assets	86542	1827 (2.2)	9385 (12.2)	536 (0.7)	-628 (-0.8)	25159 (47.8)	27674 (110.9)
Reserve Money	189327	5417 (2.9)	-5009 (-2.6)	9254 (5.5)	25054 (14.8)	30611 (22.1)	27892 (25.2)
Net RBI Credit to Centre	125029	2460 (2.0)	6261 (5.3)	14012 (14.2)	19855 (20.1)	2130 (2.2)	260 (0.3)
Ad hoc Treasury Bills (Nov 1)	35085	2280	5640	13990	5965	1750	6300
Scheduled Commercial Banks							
Deposits	463158	1413 (0.3)	29339 (6.8)	11542 (3.0)	46961 (12.1)	53629 (16.1)	52144 (18.6)
Advances	255256	4307 (1.7)	1241 (0.5)	14380 (6.8)	42455 (20.1)	40638 (23.8)	11566 (7.3)
Non-Food Advances	246507	3994 (1.6)	2284 (0.9)	13525 (6.8)	44938 (22.5)	37798 (23.4)	8875 (5.8)
Investments	178267	1239 (0.7)	13485 (8.2)	8783 (5.9)	15529 (10.4)	14171 (10.5)	28641 (26.9)

Index Numbers of Industrial Production (1980-81=100)	Weights	June 1996	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	Average for Full Fiscal Years: 1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
General Index	100.0	280.0	282.6(8.5)	260.5(14.6)	284.3(12.1)	253.7(9.4)	232.0(6.0)	218.9(2.3)	213.9(0.6)	212.6(8.2)
Mining and Quarrying	11.5	247.9	251.7(3.6)	243.0(15.7)	265.9(6.9)	248.8(7.5)	231.5(3.5)	223.7(0.6)	222.5(0.6)	221.2(4.5)
Manufacturing	77.1	277.8	278.0(10.4)	251.7(14.9)	278.8(13.6)	245.4(9.8)	223.5(6.1)	210.7(2.2)	206.2(-0.8)	207.8(9.0)
Electricity	11.4	327.1	344.5(2.2)	337.0(12.5)	340.3(8.2)	314.6(8.5)	290.0(7.4)	269.9(5.0)	257.0(8.5)	236.8(7.8)

Capital Market	Nov 15, 1996	Month Ago	Year Ago	1996-97 So Far: Trough	1996-97 So Far: Peak	1995-96 So Far: Trough	1995-96 So Far: Peak	End of Fiscal Year: 1995-96	1994-95	1993-94
BSE Sensitive Index (1978-79=100)	3139(-0.6)	3119	3159(-21.7)	3003	4069	2826	3584	3367(3.3)	3261(-13.7)	3779(65.7)
BSE 100 (1983-84=100)@	1395(-2.7)	1391	1433(-25.9)	1321	1843	1304	1691	1549(-3.5)	1606(-12.2)	1830(79.2)
BSE-200 (1989-90=100)	308(-2.5)	308	316(-30.9)	298	413	289	385	345 (-6.3)	368(-18.2)	450(92.3)
NSE (Nov 3, 1995=1000)	894	878	na	874	1196	na	na	na	na	na
Skindia GDR Index (Apr 15, 1994=100)	60.2(-9.8)	59.9	66.7(-33.5)	56.0	90.0	61.6	87.9	78.5(0.7)	78.0	na

@ Renamed index since Oct 14, 1996, compared with the earlier National Index (1983-84=100)

Foreign Trade		September 1996	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93	1991-92
Exports:	Rs crore	9277	56801 (20.9)	46973 (25.3)	106465 (28.8)	82674 (18.5)	69751 (29.9)	53688 (21.9)	44042 (35.3)
	US $ mn	2596	16150 (9.1)	14805 (23.8)	31831 (20.9)	26331 (18.4)	22238 (20.0)	18537 (3.8)	17866 (-1.5)
Imports:	Rs crore	10269	63182 (14.5)	55158 (35.1)	121647 (35.2)	89971 (23.1)	73101 (15.3)	63375 (32.4)	47851 (10.8)
	US $ mn	2874	17964 (3.3)	17384 (33.6)	36370 (26.9)	28654 (22.9)	23306 (6.5)	21882 (12.7)	19411 (-19.4)
	Non-POL US $ mn	2142	13548 (-5.1)	14271 (37.7)	28822 (26.8)	22727 (29.5)	17552 (11.2)	15782 (12.3)	14047 (-22.2)
Balance of Trade:	Rs crore	-992	-6381	-8185	-15182	-7297	-3350	-9686	-3809
	US $ mn	-277	-1814	-2580	-4539	-2324	-1068	-3345	-1545

Foreign Exchange Reserves (excluding gold)	Nov 8, 1996	Nov 10, 1995	Mar 31, 1996	Variation Over: Month Ago	Year Ago	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
Rs crore	69433	60552	58726	2509	8881	10707	-5476	-7302	18402	27430	5385
US $ mn	19406	17515	17126	624	1891	2280	-3301	-3690	5640	8724	731

Notes: (i) Superscript numeral denotes month to which figure relates, e g, superscript 8 stands for August. (ii) Figures in brackets are percentage variations over the period specified or over the comparable period of the previous year. na = not available.

Foreign Investment Approvals and Actuals: A Profile

A Foreign Collaboration (FC) Approvals

	Total 1991-1996	1996 (Up to July 96)	1995	1994	1993	1992
1 Total no of foreign collaborations (technical and investment)						
Approvals by	9333	1196	2337	1854	1476	1520
(i) SIA	2886	259	593	382	307	585
(ii) RBI	3562	461	799	702	676	736
(iii) FIPB	2885	476$	945#	770*	493	199
2 No of FC approvals involving foreign investment	4915	732	1355	1062	785	692
(i) SIA	874	69	165	92	59	243
(ii) RBI	1166	191	247	201	235	251
(iii) FIPB	2875	472$	943#	769*	491	198
3 Total amount of foreign investment involved (Rs cr)	78240	18700	32070	14190	8860	3890
(i) SIA	2210	650	300	320	160	420
(ii) RBI	3370	720	540	530	660	780
(iii) FIPB	72660	17330$	31230#	13340*	8040	2690

$ includes 3 GDR proposals/foreign currency convertible bonds involving investment of Rs 6.1 billion.
\# includes 4 GDR proposals involving investment of Rs 11 9 billion
* includes 22 proposals (GDR) involving investment of Rs 52 3 billion.

B Actual Inflow of Foreign Direct Investment (FDI and NRI) (Rs cr)

	Total 1991-1996	1996	1995	1994	1993	1992
1 Govt's approval	9785.0	2760 5	3869 4	1500 8	985 2	478 0
2 RBI's automatic approval	1551.9	370.5	530 2	362 6	241 1	47 5
3 NRI schemes:						
(a) 40 per cent	5037 3	1077 8	1970 6	852.4	489 8	148 0
(b) 100 per cent				255 9	69.8	1.7
Total (1+2+3)	16374.2	4208 8*	6370.2	2981 9	1786.7	675 2

* provisional

C Break-up of Foreign Direct Investment Proposals Approved

Statewise (Aug 91-June 96)	No of Approvals	Investment (Rs Crore)	Per Cent to All-India	Country (source) wise (Position as of 31/7/96)	Investment (Rs Crore)	Per Cent to Total
Delhi	367	16220 13	22 79	USA	6528 51	34 93
Maharashtra	670	10551 48	14 83	UK	1154 69	6 18
West Bengal	138	4227 47	5 94	Japan	762 15	4 08
Tamil Nadu	423	3700 05	5.20	Mauritius	1293 48	6 92
Gujarat	202	2851.29	4.01	Germany	828 70	4 43
Karnataka	334	2829 23	3.98	Australia	30 55	0.16
Orissa	35	2653 71	3.73	Netherlands	305 90	1 64
Andhra Pradesh	241	1740 64	2 45	Switzerland	41 05	0 22
Uttar Pradesh	173	1687 48	2.37	Canada	110 40	0.59
Madhya Pradesh	75	1047 38	1 47	Italy	39 45	0 21
Punjab	54	778.83	1.09	Singapore	189 19	1 01
Haryana	215	661.99	0.93	Hong Kong	123.27	0.66
Rajasthan	113	508 39	0.71	UAE	41 98	0.22
Himachal Pradesh	19	309.02	0.43	France	945.18	5.06
Pondicherry	24	201.07	0 28	Korea (South)	2243.01	12.00
Goa	26	200.84	0.28	Denmark	43.19	0 23
Kerala	44	109 32	0.15	Belgium	177.57	0.95
Bihar	20	100.52	0.14	Sweden	496 00	2 65
Chandigarh	11	72.46	0.10	Bermuda	126.00	0.67
Dadra-N Haveli	13	63 15	0.09	Finland	43 55	0.23
Arunachal Pradesh	2	11 06	0 02	Kuwait	260.00	1.39
Daman-Diu	7	5.72	0.01	Saudi Arabia	607.00	3.25
Assam	4	1 50	0.00	Bahrain	53.02	0.28
Andaman-Nbar	5	0.98	0 00	Philippines	255.75	1.37
Tripura	1	0 68	0 00	NRI Proposals	1128.46	6.04
Lakshadweep	1	0 50	0 00	Euro Issues (GDRs)	613.80	3.28
Others	1498	20626.42	28.99	All Others	250.77	1.34
All-India	4715	71161.28	100.00	Total	18692.62	100.00

D Industrywise Break-up of Foreign Collaboration Approvals During August 1991 to July 1996

(Amount in Rs crore)

Name of Industry	Number of Proposals: Tech	Number of Proposals: Fin	Amount of FDI Approved	Per Cent to Total Amount
Basic Industries	928	696	26907.43	34.44
Ferrous metals	143	83	4145 08	5.31
Non-ferrous metals	28	30	768.73	0.98
Special alloys	27	13	25.52	0.03
Misc (other items) under metallurgy	16	11	53.39	0.07
Power	1	30	8299.03	10.62
Oil refinery	67	59	7381 19	9.45
Others (fuels)	26	46	1001.29	1 28
Fertilisers	33	5	41 21	0.05
Chemicals	562	395	4758.24	6.09
Cement and gypsum products	25	24	433.75	0 56
Capital Goods Industries	1931	1287	7685 73	9.84
Boilers and steam generating plants	32	23	97 15	0.12
Prime movers	22	14	25 01	0.03
Electrical equipment	593	357	1540 84	1 97
Electronics	89	144	1452 38	1.86
Others (S/W)-electrical	12	9	6.81	0 01
Automobile industry	231	115	1780 15	2 28
Transport (others)	18	15	210 21	0 27
Industrial machinery	590	278	1516 58	1.94
Machine tools	59	48	121.49	0.16
Agricultural machinery	20	7	217.77	0 28
Earth moving machinery	26	11	12 97	0 02
Misc mechanical and engineering	142	168	380 02	0 49
Medical and surgical appliances	15	25	173.49	0 22
Industrial instruments	70	50	102 33	0.13
Scientific instruments	12	23	48 53	0 06
Intermediate Goods Industries	168	268	1263.54	1.62
Dyestuffs	2	9	30 24	0.04
Rubber goods	68	50	243 69	0 31
Leather, leather goods and pickers	25	92	159 37	0.20
Glass	24	21	382 98	0 49
Ceramics	48	92	440 89	0 56
Consumer Non-Durable Industries	881	1209	10387 79	13.29
Photographic raw film and paper	5	5	24.88	0.03
Drugs and pharmaceuticals	104	83	497 82	0 64
Textiles	79	239	1624 96	2 08
Paper and pulp incl paper products	51	44	664.17	0 85
Sugar	1	2	53 50	0.07
Fermentation industries	13	31	788.44	1 01
Food products	97	330	5030.70	6 44
Marine products	18	65	82 89	0.11
Misc food products	0	2	8.00	0.01
Vegetable oils and vanaspati	3	23	43.79	0 06
Soaps, cosmetics and toilet prep	8	18	105 38	0.13
Misc industries (horti/flori/agri)	127	159	225.21	0.29
Other (misc industries)	375	208	1238.05	1.58
Consumer Durable Industries	27	40	2232.47	2.86
Comm office and household equipment	26	27	447.24	0.57
Passenger cars	1	13	1785.23	2 58
Services	254	1328	29657.53	37.96
Computer software industry	45	310	1217 71	1 56
Telecommunications, paging, etc	76	190	19488.09	24.94
Air/Sea transport	6	48	1353.56	1.73
Consultancy services	51	170	252.44	0.32
Financial services	1	121	2243.16	2.87
Non-financial services	8	167	2064.26	2.64
Banking services	0	9	114.09	0.15
Hotel and tourism	62	109	1946.66	2.49
Trading co	0	191	190.96	0.24
Grand Total	4189	4828	78134.47	100.00

Notes: Subtotals and totals include minor items not separately shown.

LARSEN & TOUBRO

On the Upswing

ENGINEERING and turnkey construction major, Larsen & Toubro (L&T) posted a 30.6 per cent rise in net sales in 1995-96 with a similar rise in operating profit (up 30.4 per cent). Higher recourse to term loans, which increased by 73 per cent during the year, led to a 43.4 per cent rise in interest charges. However, a 17.7 per cent fall in tax provision over the previous year helped the company post a 40 per cent increase in net profit.

The company's debt-equity ratio has remained low, with debt amounting to only around 30 per cent of net worth, despite a sharp increase in long-term borrowings by the company. The current ratio, meanwhile, seems to have improved from 1.5 a year ago to 1.72 in 1995-96. There was an almost four-fold increase in the company's exports (including deemed exports). While earnings per share increased from Rs 12.1 to Rs 15.6, book value increased from Rs 90 to Rs 113.5 over the same period. The company's equity capital witnessed an 8.6 per cent increase following the conversion of GDRs offered earlier. Encouraged by its performance, the company increased the dividend rate from 50 per cent last year to 60 per cent.

Over a period of three years, from 1992-93 to 1995-96, the company's sales have almost doubled and its net profit has more than tripled. L&T is the largest engineering and construction company in the country with almost 60 per cent of its turnover and up to 54 per cent of operating profits coming from this division, which specialises in setting up engineering projects in the cement, fertiliser, food, power and chemicals industries. The other divisions have a kind of synergy with its main business – the cement division with a capacity of 6.1 million tonnes per annum; the construction division which makes hydraulic excavators, wheel loaders, vibratory compactors and loader backhoes; and the electronic and electrical division which offers switchgear equipment, control systems and telecom equipment.

Though the budget has not been kind to the company as far as input costs are concerned (freight, coal, power), the increased focus on infrastructure will benefit L&T in the long run. For the first three months of 1996-97 the company has recorded a 33 per cent rise in sales over the corresponding period last year. The order booking position also improved by 37 per cent to Rs 1,667 crore over the same period. The company plans to increase its cement capacity to 12 mn tonnes per annum (mtpa) by the year 2000. While this plant is to be commissioned by the end of this year, the 1.75 mtpa Tadpatri Cement Works in Andhra Pradesh is expected to be completed in the second half of 1997. The company has signed a memorandum of intent (MoI) to form a 50:50 joint venture with Samsung Electronics of South Korea for the manufacture and marketing of a wide spectrum of telecom products including switches, transmission products, paging systems and EPABX. Also, Bhilai Power Supply, a company jointly promoted by L&T, SAIL and Community Energy Alternatives of US, has received clearances to go ahead with the project work for setting up a 450 MW thermal power plant. The company has identified power generation as a major area for diversification and plans to pursue power projects based on different fuels in various parts of the country.

CENTURY TEXTILES

Rise in Raw Material Costs

This B K Birla group company has fared well in 1995-96 despite pressure on margins due to a sharp increase in raw material costs. The company's textile division contributes 45 per cent to total turnover while the cement division and paper and rayon/paper grade pulp divisions account for another 34 per cent and 13.8 per cent, respectively. The company notched a 22.4 per cent increase in net profit on a 14.8 per cent higher net sales. This was despite a 22.4 per cent increase in manufacturing expenses mainly due to very high prices of cotton, which accounts for 54.5 per cent of total raw material consumed by the company. Other major raw material consumed by the company include wood pulp (13.6 per cent of raw material consumed), eucalyptus wood (7.5 per cent), limestone (6.7 per cent), gypsum, pulp, bagasse and sulphur. Prices of fabrics in the domestic and international markets could not keep pace with the rising raw material costs resulting in pressure on margins.

The cement division saw lower production of cement and clinker at 28.4 lakh tonnes and 24.5 lakh tonnes, compared to 29.7 lakh tonnes and 26 lakh tonnes, respectively, in the previous year. This was mainly due to a planned shutdown of 40 days at the plant at Manikgarh (Madhya Pradesh) for upgrading and increasing the capacity to 15 lakh tonnes per annum and an acute shortage of power commencing from September 1995 in the state. Though production of rayon yarn was marginally higher, margins continued to remain under pressure due to increased input costs and competition in the domestic and international markets. Production of tyrecord dropped to 3,509 tonnes mainly due to lower domestic consumption and a 50 per cent increase in excise duty on deniers. Birla Tyres, a unit run by a consortium of four companies in which Century Textiles has a 60 per cent interest, has turned around during 1995-96. This tyre unit achieved a capacity utilisation of over 95 per cent with improved productivity and reduced waste.

The company managed a 32.5 per cent rise in operating profits with a tight leash on operating expenses. Though the company's total term loans increased by 15 per cent during the year, interest costs flared up by 43.4 per cent over the previous year. However, a closer look at the structure of loans shows that the company has availed of a larger proportion of short-term loans (up 135 per cent) during the year under review as compared to 1994-95. The company's earnings per share (face value Rs 100) improved from Rs 342.2 in the previous year to Rs 418.6 while its book value moved from Rs 1,970 to Rs 2,328 over the same period.

For the first quarter of 1996-97, the company has posted a 15 per cent growth in sales and a 17 per cent increase in exports over the corresponding period last year. The company plans to set up two 15 MW captive thermal power plants at a total cost of around Rs 100 crore in order to cater to the requirements of its cement plants. It is also setting up a 100 per cent export oriented unit (EOU) for manufacturing denim. The project, which will have a capacity of 10 mn metres per annum, is estimated to cost Rs 100 crore. The company is also setting up a 3-lakh tonne per annum pig-iron facility in West Bengal at an estimated cost of Rs 250 crore. Another Rs 150 crore will go towards the paper projects taken up by the company in Punjab and Uttar Pradesh.

The company's share price currently quotes at around Rs 2,935 discounting its 1995-96 earnings per share seven times.

BOMBAY DYEING

Tale of Woe

Bombay Dyeing, the Wadia group flagship which is the country's leading manufacturer of di-methyl terephthalic acid (DMT), saw mixed performance during 1995-96. While net sales increased by 28.9 per cent and net profit was up 19.4 per cent for the entire year, the company's performance in the second half of the year was a cause for concern. This was mainly due to the new capacities that have become operational in the domestic polyester industry which is already burdened by excess supply. The poor offtake of polyester yarn by synthetic weavers led to poor demand for DMT and with stocks piling up, producers like Bombay Dyeing were left with no option but to slash prices from about Rs 55,000 per tonne to around Rs 35,000 per tonne. A softening in

(Rs lakh)

Growth and Financial Indicators/ Year Ending	Larsen & Toubro March 1996	Larsen & Toubro March 1995	Century Textiles March 1996	Century Textiles March 1995	Bombay Dyeing March 1996	Bombay Dyeing March 1995
Income/appropriations						
1 Net sales	398865	305511	159053	138604	118748	92179
2 Value of production	406598	308143	163690	137407	119432	95482
3 Other income	9498	8744	8167	4993	9996	4845
4 *Total income*	416096	316887	171857	142400	129428	100327
5 Raw materials/Stores and spares consumed	106349	70923	58527	46222	74483	50139
6 Other manufacturing expenses	143752	122523	40053	34327	14119	13920
7 Remuneration to employees	33241	27574	17145	14645	6829	7102
8 Other expenses	66045	44701	20089	20006	7907	7767
9 *Operating profit*	66709	51166	36043	27200	26090	21399
10 Interest	11024	7687	10701	7464	10211	6566
11 *Gross profit*	56947	43629	28580	23145	16196	15238
12 Depreciation	13978	10943	9090	7214	4486	3754
13 *Profit before tax*	42909	32636	19475	15917	11710	11484
14 Tax provision	4040	4900	0	0	0	1675
15 *Profit after tax*	38869	27736	19475	15917	11710	9809
16 Dividends	13841	10936	2791	2453	2161	1896
17 Retained profit	25028	16800	16684	13464	9549	7913
Liabilities/assets						
18 Paid-up capital	24847	22880	4652	4652	3857	3312
19 Reserves and surplus	262722	188930	107561	91271	65510	46127
20 Long term loans	86497	34002	111471	107333	37854	28830
21 Short term loans	27272	31900	24053	10246	46584	39876
22 Of which bank borrowings	25569	31897	23045	10204	39242	15540
23 Gross fixed assets	337069	245526	244969	205274	79528	71202
24 Accumulated depreciation	81771	68504	71689	62564	30541	26338
25 Inventories	111573	92177	37050	30098	23814	22155
26 Total assets/liabilities	580431	411672	280173	252202	178183	145480
Miscellaneous items						
27 Excise duty	25920	20307	18661	17101	20195	14497
28 Gross value added	101983	77518	54069	43764	25655	25379
29 Total foreign exchange income	43369	25932	35081	29052	17743	16807
30 Total foreign exchange outgo	75689	51410	11700	19121	42850	28750
Key financial and performance ratios						
31 Turnover ratio (sales to total assets) (%)	68.72	74.21	56.77	54.96	66.64	63.36
32 Sales to total net assets (%)	99.38	110.01	64.20	64.92	77.21	78.02
33 Gross value added to gross fixed assets (%)	30.26	31.57	22.07	21.32	32.26	35.64
34 Return on investment (gross profit to total assets) (%)	9.81	10.60	10.20	9.18	9.09	10.47
35 Gross profit to sales (gross margin) (%)	14.28	14.28	17.97	16.70	13.64	16.53
36 Operating profit to sales (%)	16.72	16.75	22.66	19.62	21.97	23.21
37 Profit before tax to sales (%)	10.76	10.68	12.24	11 48	9.86	12.46
38 Tax provision to profit before tax (%)	9.42	15.01	0.00	0.00	0.00	14.59
39 Profit after tax to net worth (return on equity) (%)	13.52	13.09	17.36	16.59	16.88	19.84
40 Dividend (%)	60.00	50.00	60.00	55.00	55.00	55.00
41 Earning per share (Rs)	15.64	12.12	418.64	342.15	30.36	29.62
42 Book value per share (Rs)	113.46	89.95	2328.55	1969.91	179.85	149.27
43 P/E ratio (based on latest and corresponding last year's price)	14.13	22.11	7.01	14.76	4.02	11.55
44 Debt-equity ratio (adjusted for revaluation) (%)	30.68	16.52	102.91	117.12	54.57	58.31
45 Short term bank borrowings to inventories (%)	22.92	34.60	62.20	33.90	164.79	70.14
46 Sundry creditors to sundry debtors (%)	104.52	116.32	114.57	139.46	58.57	150.56
47 Total remuneration to employees to gross value added (%)	32.59	35.57	31.71	33.46	26.62	27.98
48 Total remuneration to employees to value of production (%)	8.18	8.95	10.47	10.66	5.72	7.44
49 Gross fixed assets formation (%)	39.00	28.55	20.33	51.87	11.69	14.05
50 Growth in inventories (%)	21.04	23.33	23.10	19.67	7.48	49.34

prices of DMT in the international arena following the withdrawal of China from the fibre and filament market and a consequent fall in all raw material prices also did not help matters. With DMT contributing more than 60 per cent of the company's turnover, it is not surprising that the company's margins came under severe pressure during the year. The sharp increase of 46 per cent in the division's turnover was more due to increased production than due to increase in realisation. Production increased from 113,773 tonnes to 134,540 tonnes as the capacity of the DMT plant was raised from 120,000 tonnes to 145,000 tonnes. The textile division, which contributes 35 per cent of the company's turnover, also performed poorly with cotton prices remaining extraordinarily high for a major part of the year. Severe competition from west and east Asia as well as Africa, which produce better quality material at lower costs, saw a sharp fall of 21.3 per cent in the company's exports during the year.

In the current year as well nothing seems to have gone right for Bombay Dyeing. The company, in order to cut costs, decided to source its paraxylene requirements from contracts instead of from the spot market. Paraxylene accounts for up to 57 per cent of its raw material requirement, the other major raw material required being cotton (21.6 per cent), methanol, fibre, yarn, dyes and chemicals. Unfortunately, the spot prices went below contract prices resulting in the company paying an 18 per cent premium price for over three months. The import duty cuts in DMT from 35 per cent to 27 per cent in the 1996-97 budget and a 2 per cent additional duty on the import of paraxylene added to the company's woes. Further, the prices of purified terephthalic acid (PTA), a substitute for DMT which also yields a better input-output ratio, rule almost equal to prices of DMT.

Meanwhile, the company's DMT plant at Patalganga had to be shut down for more than a month during the current year due to technical problems leading to a decline in turnover during the period. For the first three months of the current year the company saw a 37 per cent drop in turnover over the corresponding period last year from Rs 352 crore to Rs 222 crore. Export of textiles for the same period, however, was higher by Rs 2 crore at Rs 50 crore over the same period and the company expects an export turnover of Rs 220 crore in 1996-97 compared to Rs 175 in the previous year. The company also plans to set up a captive power plant to cater to the requirements of its plant at Patalganga as the current outgo due to power tariff is very high.

The company's share price, in the meantime, has plummeted to around Rs 122 discounting its earnings per share (EPS) for 1995-96 by a mere four times.

Paradigms of Development and Distances between Nations

Arun Ghosh

The 'globalisation' of the world is inevitable; new technology has already brought it about. But we must all bend our minds to determining how the benefits of new technology can be reached to the entire humankind, instead of enhancing the 'distance' between peoples and nations.

IN his Introduction to the volume by the Patels on *Development Distance between Nations**, Richard Jolly, deputy executive director of the Unicef says, "The message of these papers is one of hope, possibility and challenge. The historical record has made clear that rapid progress is possible; it has been achieved in country after country; at least with respect to the basics of material progress, human development and human rights and gender. Now the end of the cold war gives the world the potential for further progress, in part by shifting from international pre-occupation with maintaining security to international pre-occupation with creating the conditions for peace and development. This is the challenge..."

Jolly's remarks are well taken, but regretfully one has to say that it is after the cold war had ended that there has emerged a new international economic order (reflected in a regime of TRIPS and TRIMS and GATS, overseen by the WTO, a sort of club of the industrially powerful countries); and that this regime is calculated to impose a new type of 'Imperialism', seeking to keep the laggards in the race for economic development in a state of backwardness. Jolly's views reflect the views of the enlightened, the 'liberal' in the developed world. Unfortunately, since the 1970s, they are in most places a minority, at least a minority among those who wield authority, and in many other places a silent, quiescent, passive majority. Regretfully, as of today, these views do not count, when it comes to taking 'affirmative action' – as V P Singh puts it – to bring about conditions of genuine human dignity and human development across the world.

What is it that leads to economic development? Perhaps we, the educated in society, need to ponder, to sit back and think. What are the roots of economic development? And let us be clear from the outset that social and economic development have historically gone together. That is an empirical fact, as the history of all economically developed countries bears out. We need not argue the point here on logical grounds.

As Surendra Patel has emphasised, through most part of human history, "mankind has spent its energy in making a living – finding food, clothing and shelter"; and it is only in the last century or so that mankind has made rapid strides in improving standards of living mainly in the industrially advanced countries of the world. Surendra Patel adds, "in the process the age-old affliction was swept away from the centre to the fringe", that is, from the developed countries of the world to the laggards in the race for industrial development.

Why do we suddenly bring in the phrase 'industrial development', while we were speaking of economic development earlier? Because, it is in the industrial process that rapid strides in increasing labour productivity are possible. Indeed, in some ways, it is through industrial progress – certainly, scientific-cum-technological progress, including industrially produced inputs for agriculture – that rapid strides even in agrarian production are possible. It is essentially new technology which increases labour productivity, which enables humankind to produce enormous output at a fraction of the labour required earlier, for providing the consumption needs of the people. Let us talk of 'technological innovations' as the means of progress, though, as Adam Smith pointed out as far back as 1776, it is essentially in the process of industrial production (rather than in agriculture) that greater division of labour, greater specialisation and therefore higher labour productivity are easily possible. Greater specialisation, greater division of labour, better technology and better tools and equipment used by labour in the process of production are the founts of the large output of goods and services now available to humankind for its use.

So, what is it, in the final analysis, that leads to economic development? Human beings have toiled for their very existence from the dawn of human civilisation, and it is only in the last couple of centuries that significant changes in output arising from human effort have come about. The root of economic development is technology – in other words, 'knowledge' – and the application of new knowledge, new technology to human effort.

PUBLIC AND PRIVATE PROPERTY IN KNOWLEDGE

More than 75 years back Alfred Marshall wrote presciently: "Knowledge is our most powerful engine of production... Organisation aids knowledge...". Marshall went on to add, "the distinction between public and private property in knowledge and organisation is of great and growing importance; in some respects of more importance than between public and private property in material things;..." [Marshall 1920:138-39].

The importance of knowledge in economic development has been recognised by many economists. It was really popularised by Pierro Sraffa (1926) and Allyn Young (1928) who talked of 'increasing returns' as a distinct possibility, nullifying the then popular supply-demand-equilibrium theory. Of late, Theodore Schultz has emphasised the importance of investment in research (new knowledge) even in the sphere of agriculture, with possibilities of very high returns on such investment (1988).

But Marshall's prescient observations in regard to "the distinction between public and private property in knowledge and organisation" has of late become an extremely relevant issue. Let us go back in history. Let us give a few (brief) quotations from E J Hobsbawm (1987). Up until the beginning of the 19th century,

> In terms of production and wealth, not to mention culture, the differences between the major pre-industrial regions were, by modern standards, remarkably small... between 1750 and 1800 the per capita gross national product in what are today known as the 'developed countries' was substantially the same as in what is now known as the 'Third World'...
>
> Technology was a major cause of this gap (in per capita incomes, which by 1913 had reached the ratio of 7:1), reinforcing it not merely economically but politically... the industrial revolution which penetrated warfare in the middle decades of the (19th) century... tilted the balance even further in favour of the 'advanced' world by means of high explosives, machine-guns and steam transport...
>
> The clearest distinction between the two sectors of the world was cultural, in the widest sense of the word. By 1880s, the 'developed' world consisted overwhelmingly of countries of regions in which the majority of the male and increasingly the female population was literate...

Dissemination of knowledge, of skills was the basis of widespread economic development in what is now the 'developed' world.

* Surendra J Patel, Krishna Ahooja-Patel and Mahesh S Patel, *Development Distance between Nations*, Ashish Publishing House, New Delhi, 1995.

But now there is a new trend, worldwide, of developed countries wanting to keep a 'monopoly' over knowledge, over technology, through what has come to be known as Trade Related aspects of Intellectual Property Rights (TRIPS) enforced by the World Trade Organisation (WTO). This attempt is essentially a part of:

"The simple plan,
That they shall have who have the power,
and they shall keep who can."

To an extent, it is a futile exercise, because 'knowledge' cannot be kept back; it is universal But the task (of development) becomes all the more difficult for the 'have-nots' of the world, if the rules of the game are so fashioned as to keep the backward in a state of backwardness. That is, regretfully, as true nationally as internationally; and one must add that the latter would not be possible without the former. The present WTO regime, with its focus on intellectual property rights, on the free inflow/outflow of capital (on the specious plea that both are 'trade-related') even as the migration of labour is not part of this whole, on trade in services (GATS) – an area where developed countries have acquired increasing superiority and comparative advantage and expertise, through revolutionary discoveries/inventions in information technology, even as they have been losing out in competitiveness in traditional manufactures – together with increasing pressures on developing countries in the matter of environmental problems, of 'social clauses' including low wages (in the early stages of industrialisation), of mandatory 'market access' for the products of developed countries, of an extremely one-sided Disputes Settlement mechanism under the new WTO regime, all these are manifest attempts of the politically, economically and militarily strong countries to keep the present laggards in the race for economic development in a state of 'dependency' and under-development.

This attempt is not likely to succeed for two very important reasons. First, fortunately, even among the industrially developed countries, there are some countries – and many pressure groups within others – which are imbued with a truly 'liberal' spirit and philosophy. Secondly, since the majority of the world population – may be some two-thirds – which may today be classified as part of the 'third world', with much of the former 'second world' now joining the ranks of the 'third world', it would certainly be naive to think that they can be kept back perpetually.

Perhaps progress is cyclical, much like the way Nature behaves cyclically. Perhaps the present generation is witness to a cyclical period of increasing disparities in the state of knowledge, of economic development in the world. This is not mere idle optimism; this possibility is embedded in the very process of the evolution of mankind, historically.

Each Country Is Different

But economic development just does not 'happen' automatically. And the point to note in this context is that the problems of each country are different; the solutions to each country's problems are also embedded in the socio-political framework of each country, its resource endowment, its 'location' in the confluence of the geo-politics and geo-economics of the rest of the world. It is for these reasons, that the optimism of Surendra and Krishna-Ahooja and Mahesh Patel – the optimism reflected in Richard Jolly's Introduction to the volume needs to be tempered, first, because each country needs to pull itself up, in the context of how it is 'situated'; and secondly, because the impediments to the required efforts are not only internal but also external, and the latter are quite powerful.

What is it that needs to be done today? The very framework of societal organisation is vastly different in different countries; and much as one would like to think and talk in international terms, much as one must acknowledge the universality of the fast changing world in terms of means of communication and the coalescing of geographic distances, one must also ponder about the cultural roots of different peoples, their vastly different approaches to life and living, and then come up with economic alternatives to meeting different societies' needs for a better life.

Let us digress for a moment. The August 1996 issue of the *National Geographic* (a fascinating journal published by the National Geographic Society of Washington, DC) deals entirely with Mexico, with the geography, society, life and living conditions in, as the editor of the journal explains at the outset, different parts of this "arduous landscape of peaks and valleys rising and falling like the country's tumultuous history". The editorial goes on to say: "Today Mexico's 95 million people seem poised for another momentous change. Rich in natural resources, blessed with strong family ties and a hardworking populace, Mexico is ready to move from the ranks of developing nations into a new role, this time as a modern player on the world stage." So goes the editorial. But, in the very first article, some of the problems of Mexico are neatly summed up, in the dancing of rebel kids on New Year eve in 'Reality, Mexico': "Desperate, poor, reeling from setbacks but still determined to win their cause of land reform and representative government, they are like most of Mexico. And, like Mexico, they may appear to be just dancing, but actually they are poised, waiting for a momentous change... Across Mexico people are waiting. Driven by the decay of the old political order, by the pressure of financial disaster, by modern links to the outside world, and by a gradual building of agitation at all levels, change seems inevitable. But its direction is unknown..."

We have digressed, but the digression was deliberate. Mexico has a longish border with the US; and it is now a part of NAFTA. But has any neutral observer examined what NAFTA really implies for Mexico on the one side and the MNC interests in the US on the other? Will not NAFTA help essentially the US-based MNC interests, at the cost of the people of Mexico? As we have seen, Mexico is not short on natural resources nor on the industry of the people. But, what will be the focus of and what the constraints on the Mexican government under NAFTA? If one peruses the history of the Mexican peso over the past 20 years, say, from 1976 to 1995, if one goes back to the oil boom of the 1970s and early 1980s and Mexico's booming economy of those days, if one examines the strange flight of capital from Mexico when the going, on the import-intensive industrial production front, was not so good following the long recession in the US and western Europe during the 1980s, if one really goes back to some of the basics – as the *National Geographic* has attempted to do – one begins to realise the dangers of the New Imperialism that is now beginning to threaten world peace and world order.

Let us go back to one last quotation from the *National Geographic* and then return to our theme:

> The patterns people have left over the past 500 years of living and working on this land tell a single story Across a geography shaped by fire, flood and blowing sand, Mexicans have woven a complicated tapestry of village, city and farm vastly different from the disciplined landscape to the north of the border.
>
> In the US and Canada, geometric boundaries make a checkerboard on the land that looks printed by a machine. But in Mexico every field has its own shape and each road its unexpected curve...

It is this tapestry that many experts and intellectuals, convinced of their superior knowledge on the basis of their superior technology, are unable to either understand or appreciate. They would like, at one stroke, to redraw the boundaries (of, say, farms) in large, geometric patterns (suitable for, say farming commercially, using a variety of modern equipment). That in the process thousands, sometimes millions, may get uprooted, displaced and dehumanised, does not appear to bother them. Even in a societal framework where alternative employment can be found for those displaced – as in the erstwhile USSR after the communisation of agriculture, diverting agrarian labour to industrial production – there is an enormous cost; but where there are no alternative employment opportunities, progress for a few can imply destitution for many. That problem appears to be receding today in the calculations of international capital and therefore of developed countries.

When the talk of paradigms of economic development, what precisely do we mean? There have been several phases of economic development of the world in the past, each of them reflected in the social and economic thinking of the times. What are these paradigms of thought? Let us start with Adam Smith, whose concern was with the nature and causes of the wealth of nations. Adam Smith was the inheritor of Hume's philosophy of liberalism and of Bentham's philosophy of utilitarianism; and he saw increasing division of labour (mainly in the manufacturing process) as the source of productivity increases, the size of the market limiting the extent of the division of labour and of production capacity. The 'enlightened self-interest' of every individual in a free market would maximise output, and the satisfaction ('utility') of every individual. Hence, the focus on free trade, on free markets. One must add though that Adam Smith was also concerned greatly with two issues where he categorically refuted the free market principle. One involved the build up of social and economic infrastructure which he thought was one of the essential 'Duties of the Sovereign' (or the Commonwealth). The second is where Adam Smith's moral sentiments prevail over his theory of wages. To quote Smith, "No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed and lodged." Exponents of modern neoclassical theory, especially those who see in the untrammelled operation of the market system the panacea of the world, would do well to re-read Adam Smith, the first (and the chief) exponent of free market theory.

Changing World Economy

From Smith, let us take a brief look at Malthus and Ricardo. As Surendra Patel reminds us, "The world economy in the pre-1850 period provided a classic illustration of the model of 'dynamics of political economy', as elucidated by Ricardo, Malthus and Mill. 'The power of population' marched almost in line with the 'power of production'." But the Ricardian paradigm was not that simple. Since wages tended to be fixed at the subsistence level, there arose a 'surplus'; and this surplus added to the savings in the economy which helped the savers to invest in and to produce new capital equipment. That in turn increased output. Ricardo saw the salvation of the world in increased capital accumulation which would help to increase output.

Karl Marx merely took the Ricardian labour theory of value to its logical conclusion. But Marx went further, digging into the Hegelian philosophy of dialectics, and the historical evolution of social relations. It is Marx's clear distinction between the 'emergence' of surplus value and its 'realisation/appropriation' which led to capitalist development. Economic growth depended upon accumulation, and accumulation depended upon the realisation of surplus value. And, for the realisation of surplus value, the existence of an 'industrial reserve army' was essential.

But, though Marx rejected Say's Law (that supply creates its own demand), he neglected to note the possibility of overproduction (in relation to demand), and therefore of cyclical fluctuations in output under the capitalist system. (This was one of Rosa Luxembourg's main critiques of Marx.) It is for this reason that he saw the inevitability of a mature capitalist system getting replaced by socialism. This was not likely to happen automatically, inevitably; it required a proletarian take-over of the production process.

That things do not always work out as predicted, is amply proven by history. Socialism came, not in developed capitalist countries, but in a pre-capitalist, feudal (in fact, monarchical) society, in Russia, in 1917. In China also, socialism triumphed in a country with a war-lord, country-lord nexus, where 90 per cent of the population was rural and a higher percentage was poor, where industry was in its infancy. So, indeed, was the case in Cuba. In Viet Nam – apart from that country being an essentially agrarian society – socialism came after a long-drawn struggle against outside powers, including the mightiest military power in the world. So much for predictions.

But, to return to the paradigms of economic thought, which in a sense reflected the socio-politico-economic conditions of society, the 'Jevonian Revolution' (as Maurice Dobb calls the marginalist analysis) of the 1870s brought up the demand-supply-equilibrium theory. Wage rates (in England) were no longer determined by mere subsistence needs. The industrial demand for labour was pushing up wages. The Benthamite 'utilitarianism' came in handy for the exposition of a 'subjective theory of demand based on utility' (of consumption) to individuals; and Jevons in England (1871), Carl Menger in Austria (1871) and Leon Walras in Switzerland (1874) evolved a wholly new paradigm of thought in economics. The revolt was against Ricardian thought in England and against Marxian thought in Germany.

But, what was the social process which induced this deviation from classical economic theory? Industrial production was rising not only in England but also in Germany and France, and had commenced in the US also. By this time, British colonies were well established, and so were many French, Portuguese, Dutch and Spanish colonies. (The German and Belgian colonies came a little later.) Raw materials for industrial production were flowing in from all over the world, and new markets for manufactures were opening up. The demand for industrial labour had pushed up wage rates above the subsistence level; and though unemployment still existed – the Marxian 'reserve army of labour' – yet a refutation of Marxian doctrines (to keep down industrial unrest) became necessary. Historical facts negated the principle of wages always being at the subsistence level. Leon Walras' general equilibrium theory was a reflection of the need to find a new structure, a new logic of economic theory in order to promote the process of capitalist growth.

We set aside the Austrians, the Swedes, Schumpeter – with his path-breaking exposition of the concept of 'innovations' – explaining the dynamics of the growth process, and jump to John Maynard Keynes. The depression of the 1930s was the forerunner of Keynesian theory; and even though Kalecki (in Poland) was saying much the same things, it was Keynes (1936) who established conclusively that classical theory had no explanation for the continued underemployment of resources. Though Keynesian policies were pursued by Franklin Delano Roosevelt in the US from 1933, even prior to the Keynesian exposition, the flowering of Keynesian economics really came after the second world war, when even the developed capitalist countries accepted the need for state intervention for ensuring economic growth, even under the capitalist system.

The refutation of Keynesian policies and a revival of neoclassical theory prescribing minimum state intervention (*a la* F A von Hayek) came in the 1970s, and more particularly in the 1980s. The reason, again, has to be sought in the socio-economic history of the world. The proliferation of Eurodollars, especially during the 1960s – which brought about the abandonment (1971) of the Bretton Woods system of fixed exchange rates, with a parity with gold – and later the profusion of petrodollars from the mid-1970s (after the oil price hike by the OPEC) made for a new experience in industrially developed countries, 'stagflation'. The first casualty was the Keynesian policy of 'pump priming'. Tighter fiscal and monetary management, in order to enforce the stability of prices in the face of continued expansion of international finance capital, followed. Reagan and Thatcher perfected the Hayek-ian philosophy of privatisation (on the premise that all governmental activity is necessarily bad for society). But government control, in a sense, became tighter: rigid price stability must be maintained, no matter what the costs to the bulk of the population. That the east Asian countries were rapidly growing as a result of all-pervading government intervention was ignored. What was good for western Europe and the US must be good for the world. Economic theory has to be bent to suit the conditions of the OECD countries.

Growing Distances

We come to the final stage in this story, the saga of economic development around the world. There are limits to home markets in the developed countries. Technological changes, particularly in informatics and biotechnology, are also changing the nature and competitiveness of production around the world. The industrially developed countries are no longer competitive in traditional manufactures. Their competitiveness now arises in 'services', in new areas of production. Hence the transformation of the GATT to the WTO, with its focus on Trade-Related aspects of Intellectual Property Rights (TRIPS); on Trade Related aspects of Investment Matters (TRIMS); on Trade in Services (GATS); on the concept of 'market access', as opposed to competition; on new mechanisms of Disputes Settlement under the WTO (controlled by the developed countries), including 'cross retaliation' in any area of economic activity, with the burden of proof of not doing damage resting on the accused party, a wholly new concept in international jurisprudence.

All these measures are clearly calculated to halt the development of countries which are laggards in the race for economic development. Through the past two centuries, industrial growth has proceeded on the basis of 'reverse engineering'. 'Knowledge', new technology, has been disseminated thus. It suited the western powers to permit this process in Japan, in South Korea, elsewhere, to contain the expansion of Soviet and Chinese influence on developing countries. Large volumes of Official Development Assistance also flowed freely for much the same reason. But that is no longer necessary, or even to be permitted. Marshall's prophetic words in 1920 now ring true. "The distinction between public and private property in knowledge is of great and growing importance." In fact, public property in knowledge is bad, because all government is bad; private property in knowledge is good because that is what a private market economy is all about. That the modern processes of production lead to 'monopolies', that the very concept of Intellectual Property Rights is a direct (and a forceful) perpetuator of monopolies, is totally ignored. That totally free movement of capital in the absence of any free movement of labour is iniquitous, is also ignored. The developed countries must have free access for the capital of their MNCs in developing countries, though the latter's labour cannot migrate to the developed countries.

That, in essence, is the new international economic order that has been imposed by the developed (and economically powerful) countries of the world. This is the outcome of the long-drawn negotiations under the Uruguay Round, commencing in 1983 and culminating in the Marrakesh Agreement of 1994. Threats, cajolery, small attractions (to weak countries and their weaker political representatives), all such means are fair in this struggle for economic supremacy and domination.

Why do we bring up this story in a review of the Patels' vision, of their dream? There are two good reasons. The 'development distance between nations' has certainly been overcome in many matters, by a large number of countries. That distance has increased for an even larger number of countries. Surendra Patel acknowledges the problem in the concluding chapter. "There are too many poor people in the south", he says. "The scale of malnutrition and hunger is enormous". (This in a world where food is periodically burnt in order to keep up prices, where farmers are subsidised by states to leave their farms uncultivated.) Surendra Patel continues, "the distribution of income, and more particularly of wealth and economic power, is highly unequal. The economic distance among the countries of the south has increased."

These are all hard realities, facts of life. Yet Surendra Patel is optimistic. These weaknesses "remain to be overcome in the decades ahead".

We are all optimistic; cynics do not bother to give expression to their views, for they look at the world sardonically. But mere optimism is not enough; optimism has to be mixed with a concrete plan for 'affirmative action' (as V P Singh has stressed in a lecture delivered at Harvard in September 1995). This is no place for outlining the elements of such affirmative action today. Yet, two brief points do emerge which need to be stressed.

Strategies for the South

We come to the conclusions of this essay: the two reasons why we have outlined, very briefly and selectively, the socio-political-cum-economic history of the world, over the past two centuries. As Surendra Patel says, "the strategies needed for the final stretch of the development process in the south will have to be shaped by each country, taking into account its own specific conditions – resources endowment, labour force, development level and cultural and historical inheritance of its people". That is of the essence. This realisation must be brought home to the people, to the political representatives of the people. Let us not be swayed by the judgment of experts who sell their brains only for the fat pay packets that the World Bank and the IMF can afford to pay (at the cost of poor borrowing countries). Let us resolve that each nation would seek solutions to its problems on the basis of what the people of each country desire.

The second reason for this (rather long) narration of the well known, the obvious, is that through this column – and since the *EPW* has an international circulation among intellectuals – the appeal from all developing countries to intellectuals in all developed countries is: please try to look at the problems of the third world through the eyes of the third world. The 'globalisation' of the world is inevitable; new technology has already brought it about. But, we must all bend our minds to determining how the benefits of new technology can be reached to the entire humankind, instead of enhancing the 'distance' between peoples and nations.

As a post-script, and perhaps as a bit of an anti-climax, it is necessary to add that two essays, one by Krishna Ahooja-Patel (on gender inequalities) and the other by Mahesh Patel (on issues of health) are superb expositions on these issues. But that is the relevant point, in a way: there are two distinct and yet inter-related issues in the development process – internal constraints and external constraints. We have been concerned here primarily with the latter. But the former are equally, in fact more, important. They are for each country to resolve; and once these get resolved, external constraints – which are really for the world community to resolve – become so much the easier to tackle. In the final analysis, development depends on the will of the people.

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Importance of Indigenous Knowledge in IPR System

Suman Sahai

Now that bioresources are becoming a highly sought after raw material in the era of biotechnology, we must create a framework for the just and proper use of and appropriate payment for indigenous technology. We need to address ourselves to a few important aspects in order to lay down a comprehensive national policy in this regard.

THE importance of indigenous knowledge can be understood when one realises that there are no rice or wheat plants nor cotton or mustard found lying around in the forest. What are found in the forest are wild plants out of which communities of men and women over generations have bred races of several food and cash crops. These communities have bred out of the wild plants of the forests, the thousands of land races which are the basis of the world's agriculture. The land races bred by farming communities are the foundation material of modern plant breeding and global food security. These land races are the self-same varieties that plant breeders use to breed other varieties and for which they seek special and exclusive privileges like Plant Breeders Rights.

It needs to be remembered that farm women and men have not only created several thousand races of food and cash crops, they have also identified valuable genes and traits in these crops and maintained them over generations through a highly sophisticated system of crossing and selection. Communities have not only developed complex systems of pest management and biological control, they have identified and managed a series of genes conferring valuable traits for commercial and domestic needs. So it is that genes for traits as diverse as disease resistance, high salt tolerance, resistance to waterlogging and drought tolerance have been maintained in the repertoire of communities. Along with these commercial traits, characteristics like cooking time, taste, digestibility, milling and husking characteristics like how much grain breaks during milling operations are recognised and maintained. Women who have been the traditional custodians of the seed and responsible for its selection, are the repositories of this knowledge and in the true sense owners of this complex seed technology and know-how.

This work of genetic selection, maintenance and cross-breeding is the result of innovative and creative scientific experimentation in the field. This work is in no way less than the scientific experimentation conducted by scientists in the experimental plots of agricultural research stations. We need to overcome the bias that most of us suffer from, that of acknowledging the research conducted by scientists in white coats working in laboratories of universities as 'science' and dismissing the complex knowledge systems contained in rustic, rural communities as something infinitely less and not worthy of acknowledgement.

The fact is that there would be no plant breeders in long white coats working on experimental farms if it were not for the prior knowledge gained from rural communities. Indigenous knowledge is not only the foundation of modern science in this and many other fields, it is also what could be described as the reference and referral centre for modern plant breeding. Today, faced with the threat of global warming and climate changes across agricultural zones, scientists are on the look out for crop varieties that are more heat tolerant. The scientists do not acquire information about the location of heat resistant wheat or millet varieties by sitting in their expensively appointed laboratories and meditating for guidance. They acquire this information by going to deserts and hot regions and asking local farming communities about the varieties that grow in that region and that can withstand extreme heat. Armed with the benefit of indigenous knowledge, these scientists return to their labs and their experimental farms and engage in a breeding and selection programme that will result in the combination of traits that they seek to achieve in the new variety that is to be designed for post global warming agriculture.

If credit had to be apportioned for the breeding of a new crop variety, then it could be shared perhaps as 70:30 or at least 60.40 between the farming and scientific communities. One could say quite easily that if the breeding of a crop variety entailed 100 steps, then indigenous knowledge contributed the first 70 or 60 steps and laboratory science contributed the next 30 to 40 steps. It stands to reason therefore that credit, reward and recognition for a new variety should be similarly shared. That is the reason why the claim to place Farmers Rights on par with Breeders Rights is such a natural claim. Farmers have a greater and more innovative share in the creation of new plant varieties than scientists. Their contribution must be recognised with at least the same degree of enthusiasm, if not more than that accorded to scientists.

The role of indigenous knowledge in the realm of medicinal plants is even more obvious than in the case of crop varieties. Knowledge about the characteristics of a particular plant and its properties as a healing substance, or stated differently, the technology of its use, is what gives medicinal plants their social and economic value. This technology of use has been acquired through a few thousand years of experience, trial and error and incremental refinement. As a result of this, communities have developed the knowledge of the plant, animal and mineral world to a mature and scientifically sound technology which exists in several forms, the best known of which is perhaps Ayurveda. Apart from Ayurveda, knowledge of the healing properties of plants is found in communities that live around the forest or close to nature. Tribal communities, island communities and others have developed their own knowledge base about the flora, fauna and mineral wealth of their region and use this knowledge to their socio-economic advantage.

It stands to reason that the technology pertaining to the medicinal uses of plants and animals belongs to indigenous communities and must be considered their property. It must be considered to be their property in the same way that a technology for making high grade chrome steel is considered the property of the Japanese company that developed it. It stands equally to reason that when someone wants to use indigenous technology to produce medicines from medicinal plants, they must first ask for permission and then agree on terms of payment for the use of this technology. When a company like Dabur or Baidyanath commercialises community knowledge and benefits financially from it, it should certainly pay royalty or make an arrangement for profit sharing. This would be even more the case if foreign companies wanted the use of this technology.

If a pharmaceutical giant like Merck were to show interest in the production of medicines based on ayurvedic or tribal knowledge, it would explore the forest wealth of regions like India and Costa Rica via the local vaids or shamams. The scientist from Merck cannot make head or tail of medicinal flora when he is bio-prospecting, if he does not have information from the vaid or the tribal ojha. Merck will begin to look for a cure for stomach ulcers in plants that local vaids use for stomach ailments that resemble the allopathic definition of ulcers, and not in plants that they use for ailments of the eye. The scientist from Merck could not enter a tropical forest on his own and choose random plants, saying for example, the

creeper with blue flowers could yield drugs against cancer or the shrub with yellow flowers could contain ingredients effective against diabetes. The plants in the forest or in the field, or for that matter along the banks of rivers or on the roadside, have value only because people have the special knowledge about their characteristics and the range of their utility. It is clear that Merck must pay for this technological know-how.

It stands unequivocally established that biological resources have a value only when accompanied by the technology of their use. It is equally clear that bio-prospecting as an activity is only possible when indigenous technology is made available to those seeking access to biological resources for commercial use. Now that bioresources are becoming a highly sought after raw material in the era of biotechnology, we must create a framework for the just and proper use and appropriate payment for indigenous technology. At present the awareness and acceptance in India is inadequate with respect to the recognition of indigenous knowledge as valuable technology with a high price.

We need to address ourselves to a few important aspects in order to lay down a comprehensive national policy in this regard. These can be listed as follows:

(1) *Documentation of the location of biological resources at the regional and national level*: Unfortunately, this task entrusted to the Botanical and Zoological Survey of India (BSI and ZSI) has met with less than dazzling success. It could be said that BSI and ZSI are reasonably clueless about the current state of India's flora and fauna. This must be rectified immediately if we are to use our bioresources as the foundation for national growth. We msut at least know where we have what, whether previously recorded populations of plants, animals and insects are healthy, threatened, on the verge of extinction or already extinct.

Along with the documentation of the bioresources, we must *document the local/ community knowledge* that exists about the various uses of these resources. This documentation which should be compiled as a *National Bioresource Register* will serve several functions.

(a) The first is that of a data bank for people seeking access to information. This access should be made available for a fee accompanied by the conditions governing the use of this information. This is the normal practice with data banks everywhere.

The fee for bio-prospecting must be levied and be paid into a *Community Gene/ Technology Fund* in the dispensation of which, representatives of communities will have a say. It would be advisable to have a basic fee for the right to prospect irrespective of whether a viable product emerges from this exploration. A profit sharing formula should be worked out in addition, if a commercial product is developed, to pay for the use of Indian raw material and Indian/ Indigenous technology.

(b) The documentation can be used to stake the claim of communities or individuals for royalty payments for the transfer of indigenous technology. This data base can also be used to identify communities which should be included in the National Authority that will govern the use of bioresources and implement conditions of the Convention on Biological Diversity (CBD) like Prior Informed Consent and Material/Information Transfer Agreements.

(c) Finally, this data bank will serve the important function of establishing community knowledge firmly in the public domain. This will provide the technical basis for rejecting patent claims that derive from indigenous knowledge. The recent furore over the American patent granted on the wound healing properties of Haldi is a case in point. As is also the patent granted to WR Grace for a Neem-based pesticide. Phyllanthus nirurii, called Bhoomi Amla in India is known in several Asian countries for its efficacy in treating liver ailments. A liver medication extracted from Phyllanthus has been patented by Bloomberg (US), obviously derived from the traditional knowledge of Indian/Asian communities. All these patents should have been challenged on the grounds that they derived from knowledge/technology owned by indigenous communities. Furthermore, this knowledge was used unlawfully without either Prior Informed Consent or Material/Information Transfer Agreements; therefore a strong case exists for annulling these patents.

If India is to protect its interests, and the interests of its indigenous communities, it will have to be aggressive and proactive in laying down the guidelines governing the use of bioresources. It will then have to act resolutely to challenge any infringements. Apart from challenging the grant of patents in other countries, it would be advisable for Indian legislation to include clauses barring the grant of patents on any products or processes derived from indigenous knowledge. The knowledge of communities must remain in communities and not be privatised.

(d) We must ensure that the information that is documented is banked in a government-owned repository and is legally admissible in a court of law as evidence for prior knowledge. In order to strengthen the claim of indigenous communities over their knowledge base, our laws must admit Oral Tradition as documentation of use. This will be of importance when dealing with knowledge other than that documented in Ayurveda, like tribal knowledge or the knowledge existing in far-flung island or hill populations.

(2) *Drafting of national legislation.* New laws should be drafted quickly to deal with all aspects of bioresources and policy governing their use. These laws are to be drafted primarily in the context of two international treaties, the Convention on Biological Diversity (CBD) signed in Rio in 1992 and the GATT/TRIPs which was finalised in 1994 and led to the formation of its successor the World Trade Organisation (WTO).

Three new laws have to be formulated for the CBD. These are (i) to establish ownership rights over the biological resources found in the sovereign territory of India. This is necessary to overturn the earlier principle of Common Heritage of Mankind according to which all genetic resources were considered to be the property of everybody, with no particular ownership. (ii) To formulate the guidelines and structures for Prior Informed Consent according to which user parties will have to seek the permission of some kind of National Authority authorised to grant or refuse access to genetic resources. Representatives of communities that have been responsible for maintaining genetic resources over generations and are the repositories of indigenous knowledge, should be members of such a National Authority. (iii) The conditions for Material and Information Transfer Agreements will have to be laid down so that the use of biological resources is just, equitable and sustainable. This law would seek to ensure that indigenous communities are not denied their share of the profits that accrue from the commercial exploitation of the genetic resources that they have conserved.

The question of Intellectual Property Rights will have to be addressed in the CBD, although indirectly. Our position should be that India will not grant IPR protection over products and processes derived from indigenous knowledge. The rationale for this is that knowledge that belongs to communities should not be privatised. Whereas this knowledge can and should be used for commercial exploitation and the betterment of communities, it should not be monopolised.

With respect to GATT/TRIPs or now WTO/TRIPs, a *sui generis* legislation will have to be brought in to determine the use of genetic resources in the breeding of new crop varieties and the kind of Intellectual Property Rights that would be granted for the development of new varieties. It would be highly inadvisable in this case to follow the UPOV model for Plant Breeders Rights, as favoured by the government. The UPOV model is relevant for industrial economies where it was developed, not for agriculural economies like ours. UPOV respects the rights of breeders but has no mention of the rights of farmers who are the creator/ maintainers of the agricultural stock and land races without which modern breeders could not breed new varieties. Our *sui generis* legislation should place Farmers Rights on par with Breeders Rights and acknowledge and reward the contribution of farm men and women to the development of land races and therefore to the development of new varieties. The indigenous knowledge involved in the location of favourable genes needed for successful breeding work should be paid for. The recipient can be the *Community Gene/ Technology Fund* mentioned earlier.

Another prospective legislation emanating from the WTO/TRIPs will have to decide on an IPR regime for micro organisms. Micro organisms do not feature as much in the mainstream of community knowledge as plants and animals. Even then, there are pockets of specialised knowledge regarding their use in cases like human and veterinary care and the processing and preservation of many foods. Care will have to be taken that any IPR regime that India accepts, will have provisions for acknowledging and compensating the rights accruing from indigenous knowledge.

Multilateral Investment Agreement and Poor Countries

Neela Mukherjee

While the OECD countries have proposed the Multilateral Agreement on Investment, the opportunities open to the poor countries for exporting labour services have been crippled by the GATT-Uruguay Round. The developing countries as a group must focus on this asymmetry at next month's WTO Ministerial Conference and in subsequent rounds of WTO negotiations.

THE WTO Ministerial Conference to be held at Singapore from December 9 to 13 is slated to be a crucial one from the point of view of assessing the implementation of the GATT-Uruguay Round and also tackling new issues in the geopolitical agenda of global economic integration. The major challenges facing WTO emanate not only from the implementation of the GATT-Uruguay Round's results but also from the 'new agenda' covering trade and investment, competition policy, trade, environment and social standards. There is yet another issue which is fast brewing. Upcoming at the WTO Ministerial Conference at Singapore is a proposal made by the European Commission in a paper entitled 'A Level Playing Field for Direct Investment World-Wide' for negotiations on a multilateral agreement on investments. This is to endorse, without discrimination, "the international rules on foreign direct investment which should guarantee generally free entry and establishment for foreign investors, full national treatment for established investments and high standards for investment protection".

Labour Movements Restricted by GATS

If we examine the proposed Multilateral Agreement on Investment (MAI) of OECD against opportunities of poor countries for exporting labour services (capital and labour being two parallel factors of production where comparative advantage of the north lies in capital flows while that of the south in flow of labour services) we find that the GATT-Uruguay Round has crippled the gains of developing countries from exporting such services. It is crystal-clear from the results of the Round, that at least on one account, i e, for accessing markets for exporting labour services, the poor countries have registered substantial losses while negotiating under the General Agreement on Trade in Services (GATS). Their comparative advantage in exporting labour services has been drastically curtailed by the nature of specific commitments under GATS.

Labour movement has been severely restricted although the importance of 'labour' has been recognised and its movement included in GATS as a mode of delivery of services in addition to the other three modes, namely, (i) cross-border supply, (ii) consumption abroad (movement of consumers from importing country to buy goods and services in host country), and (iii) commercial presence or setting up of establishment by host country enterprises in the importing country. Market access commitments of member countries under GATS clearly reveal that the subject of movement of labour other than higher level personnel has been carefully kept outside the purview of GATS in WTO. While most countries have restricted movement of personnel exclusively to higher levels, very few countries have included 'other personnel' in their commitments and a few others have not made any explicit statement in this regard. Majority commitments in market access in general have allowed exclusive entry of higher level personnel in professional, managerial and technical category. This reflects current trends in liberalisation and globalisation of production and also prompts a global search for expertise and creates pressures for liberalisation of regulations involving temporary movement of highly skilled persons, as pointed out by a recent UNCTAD report. In such a process, those categories of natural persons lacking higher levels of skills and knowledge get marginalised from such globalisation and liberalisation of labour markets.

Countering Multilateral Investment Treaty

To maintain reciprocity with the proposed Multilateral Investment Treaty originating from north, the poor countries as a group can propose a Multilateral Labour Treaty for accessing different sectors of global labour markets. Such a treaty can be proposed in the ministerial meet of WTO at Singapore in December or taken up in future rounds of WTO negotiations. The Multilateral Labour Treaty would basically counter the Multilateral Investment Treaty of OECD countries and, at this juncture, act as a major bargaining tool for the poor countries.

Many poor countries with surplus labour have comparative advantage in exporting labour services. This contributes to export earnings from labour services by way of wage-income, fee, honorarium and other remittances. Such exports of labour services help many poor countries often to finance their international payments imbalances, to hedge against falling export earnings, to increase savings and employment opportunities and alleviate poverty. They have the advantage in not only using cheap labour as a factor of production but also in relocating them through temporary international migration for trading in labour services. At the micro level this helps in achieving decent standards of living for many migrants from poor countries.

In WTO only those countries which have stocks of higher level personnel are in a position to take such advantage of GATS commitments. However, most of such advantage would be exploited by multinational firms of the industrialised countries which tend to dominate this category of superior personnel. The poor countries have nothing much to gain from the kind of commitments made since normally such countries do not specialise in export of higher level personnel. Most of them import such personnel rather than export them. Hence with reference to this mode of delivery, GATS commitments have virtually sealed the fate of the poor countries.

Trade in Labour Services: Real World Scenario

In today's world, however, the GATS commitments do not reflect the existing reality. On the contrary, we find that there is a flourishing global trade in labour services where developing countries actively participate as per the *World Development Report* of 1995 of the World Bank. According to the World Bank estimate, some two to three million new migrants now leave developing countries each year (both legally and illegally), about half of whom go to the industrialised countries. Between 1970 and 1992, low and middle income countries' share of world work-force rose from 79 per cent to 83 per cent and their share of world's skilled work-force (those workers with at least a secondary education) jumped from

a third to nearly a half. The demand for labour services is increasing at a fast pace in different parts of the world, including migration within Asia which is picking up. Hence, there are different sectors of movement of migrant labour, including personnel, taking place outside the orbit of WTO although just one sector of superior personnel has been formally recognised by WTO. It is clear that the specific commitments of GATS regulate only a small part of movement of labour leaving the rest of labour exports to trade relationships outside WTO. Operating formally in such a narrow sector creates a rift in WTO's objective of establishing a multilateral framework of principles and rules for governing trade in services, especially those for liberalising labour markets.

The poor countries have not only registered potential (actual with implementation) losses in multilateral trade under WTO as a result of restrictions imposed on movement of labour through GATS, they are also heading towards the highly skewed multilateral investment treaty which attempts at protecting the investment interests of the rich multinationals of the north. The would-be treaty proposes to bypass a host country's economic, strategic and security interests. It proposes to create suitable market conditions for foreign investment and desires extensive changes in the policy framework of host countries covering taxation laws, labour laws, anti-trust laws, company by-laws without any consideration for national objectives, security concerns, geo-political interests, stage of development, balance of payments position, etc.

Of late, enforcement of WTO rules and regulations regarding multilateral trade and investment almost infringes the sovereign rights of a nation state. With WTO overseeing the implementation of the GATT-Uruguay Round, the ambit of sovereign policy-making for the member countries is considerably curtailed in the spheres of agriculture, industry, services, intellectual property rights, investments, subsidies, standards, etc. One agrees that it does make sense for countries to make small sacrifices if the real cause is promotion of free and fair multilateral trade. However, north's attempts at imposing protectionist measures in the garb of social and environmental clauses and labour standards affect the credibility of WTO's objective of promoting multilateral trading and its progressive liberalisation. Again unilateral moves from countries of the north regarding trade and investment raise questions of sovereignty, national security, rights of jurisdiction and independent pursuit of economic policy options in the south and its reciprocal treatment.

Options Open for Developing Countries

As per the current mandate of WTO, the poor countries would be either forced to stop trading in labour services sooner or later or, alternatively, would have to search for such trading opportunities outside the WTO route. The latter indirectly weakens and threatens the very functioning and objectives of WTO as a multilateral institution. One option is to establish/strengthen bilateral or regional trading relationships with countries where the movement of labour as a mode of delivery of services can be exploited. This includes both WTO members and non-members since all countries are not members of WTO. For example, Bangladesh, Sri Lanka, India, Pakistan, etc, have entered into bilateral arrangements with many Asian countries for exporting their skilled and semi-skilled labour services.

In the years to come, when implementation of GATS catches up, exporting labour services to existing global markets, both inside and outside the WTO system, might get to be more arbitrary, exploitative, restrictive and less transparent. However, such markets are expected to increase in size with greater demand for both skilled and semi-skilled labour from both industrialised and poor countries. Hence, those poor countries, with comparative advantage in export of labour services can seize such opportunity and evolve ways, multilateral, bilateral and regional, to have better terms of negotiations in labour services which can create future avenues for increased export of such services. One attempt at multilateral trading is to propose a multilateral labour treaty. Even when such a proposed treaty is not accepted and translated into actual practice it can help in countering the multilateral investment treaty and strengthen south's bargaining position.

Proposed Multilateral Labour Treaty

Uninterrupted labour flows across the globe would lead to the greatest benefit to the world economy when such flows can take place with minimum of barriers and in a transparent and predictable system. For the proposed Multilateral Labour Treaty, the following points can be considered to formalise such labour flows:

* making space for reasonable market access to labour of all categories as service providers;
* offering national treatment for labour and their services;
* undertaking a set of guarantees for service providers by the importing countries; and
* setting up a mechanism to monitor and enforce commitments.

Commitments can be made for the categories of ILO occupations such as professional, technical and related workers, administrative and managerial workers, clerical and related workers, sales workers, service workers, workers in agriculture, animal husbandry, forestry, etc, production and related workers, transport equipment operators and labourers. The member countries of WTO can also offer sectoral and subsectoral commitments with respect to the above categories of workers.

All restrictions and barriers such as labour market test, economic needs test, etc, imposed by importing member countries need to be transparent. Appropriate safeguards such as quota and other reasonable quantitative restrictions can also be employed, if found necessary.

Such guarantees are to be provided by importing countries against exploitation of migrant labour, discriminatory treatment etc. Labour service providers must have freedom to move and a right to dignified existence backed up by legal guarantees. The advantages of cheap labour should not face trade barriers such as equal remuneration, labour standards, technical requirements and local commercial presence. These guarantees are also required. Another requirement may be that of a 'social clause' to do away with forced labour, child labour and exploitation of women labour. This can also be added to the treaty in a predictable manner. Such a treaty needs to include issues in illegal migration, respectable conditions of employment, flexible laws on workers' remittances, appropriate changes in labour laws, taxation laws, flexible work permits, employment benefits and protection of foreign workers from physical attacks and mental torture by vested interests. A monitoring mechanism may be set up to enforce the guarantees and to oversee the implementation of the treaty. Amicable procedure for settlement of disputes also needs to be included in the treaty.

Such a treaty, if accepted, can play an effective role in increasing participation of poor countries, ease their payments situation through remittances, create flexibility in pursuing liberalisation measures and broaden their domestic markets. It would also lead to liberalisation of global labour markets, ease labour shortages in global markets, improve labour standards, upgrade skills through international exposure, expand markets, improve purchasing power and alleviate poverty.

Based on current trends in global demand for labour and professional services, gains to poor countries from accessing foreign labour markets through WTO can be considerable both at micro and macro level. A treaty such as the one proposed here would help in liberalisation of labour services as a part of the multilateral trading system where dispute settlement machinery of WTO can be accessed for settling disputes. It would help the poor countries to reduce present arbitrariness and uncertainties regarding export of labour services. It would also provide them with opportunities to increase their gains by participating in the multilateral trading system and augment their export earnings, income, employment and reduce poverty. Last, but not the least, such a labour treaty, if proposed would help to counter the proposed multilateral investment agreement, a major unilateral move from the countries of the north.

[The views expressed here are in the personal capacity of the author.]

T N Krishnan

In Memoriam

A Vaidyanathan
N Krishnaji

T N Krishnan, whose research interests encompassed food policy, literacy, health, fertility behaviour and social security, was of the firm view that research should not end up in the annals of academia but must be used to change and improve policy.

T N KRISHNAN, who passed away in Thiruvananthapuram on September 7, was a person of extraordinary accomplishments. His primary vocation was teaching and research in economics. But he was unconventional both in the choice of research areas and in the way he approached them. His earliest work, exploring agriculture-industry relations, using a formal model and econometric estimation, already showed signs of his originality and insights. Over the years his interests became wider and encompassed literacy, health, fertility behaviour and social security, all of which have a direct bearing on the living conditions of the poor, disadvantaged population. He was quick to see that one needs to go beyond the domain and tools of conventional economics to a consideration of social and political forces operating in a historical context.

This is not the occasion to attempt a comprehensive account of Krishnan's research. But it is appropriate to highlight some of his major contributions. The line of argument on agriculture-industry relations developed in his PhD thesis was stated and restated later by many others in the exploration of demand constraints on the industrial development of India. Krishnan saw food production and consumption as holding the key to India's economic prospects. He continued work on this theme during his tenure on the faculty of the Indian Institute of Management, Calcutta, by looking at several specific food policies including the impact of foodgrain prices and imports under PL 480 on domestic production and surpluses. Food policy remained a theme of life-long concern for him, as did his interest in policy questions.

Throughout he was of the firm view that research should not merely end up in the annals of academia but be used to change and improve policy. His approach in this respect was always positive in seeking what is feasible under given political and other constraints. He made it a point to actively interact with politicians and bureaucrats in a position to shape policy and made a conscious effort to keep in touch with them and persuade them about policies which he felt were necessary.

His move to the United Nations during the mid-1960s prevented him from fully developing his ideas on the relationship between food and industrial development. However, he came back repeatedly in his later work to the food economy, but from an altogether different point of view, namely, ensuring adequate supply of food at reasonable prices to the large mass of people living in poverty.

Krishnan had deep emotional roots in Kerala and was attached to the state, without being in the least parochial. Shifting from IIM to teach in Kerala University was like home-coming for him. He was also part of the group which founded the Centre for Development Studies. In 1974 he formally joined the CDS faculty and, except for an absence of a few years in the UN forced by the serious illness of his young wife, he remained active in the Centre for the rest of his life. He served as its director for some years. Throughout he was deeply committed to building the CDS and worked with great zeal and energy to help make it a leading national centre for research and postgraduate teaching.

In terms of research, explaining Kerala's achievement in literacy, health status, fertility decline and public distribution of essential goods, despite a low level of development as conventionally measured and high unemployment rates, was the source of sustained intellectual stimulus for him throughout the last 25 years. During the early 1970s he was among the first scholars to have noticed and clearly formulated the nature of the Kerala puzzle – rapid social advancement in many respects combined with poor economic performance. His pioneering work on the demographic transition in Kerala was an effort to understand one important aspect of the puzzle. The prescience of this study lies in its analysis of inter-regional variations and focusing on the events during the last two decades that led to a narrowing of the gap in demographic variations between the northern and southern parts of Kerala. It shows the depth of Krishnan's understanding of Kerala.

His interest in population-development relations became stronger during his tenure at the UNFPA in the early 1980s. Soon after his return, he took the initiative to establish, under UNFPA auspices, an international centre for training in population and development. He was not daunted by the considerable scepticism and some opposition in the CDS community at that time to the idea. That the centre has been functioning for over 10 years and has earned a well deserved reputation is a lasting tribute to Krishnan's perseverance and efforts.

Simultaneously he pursued and encouraged work on factors accounting for Kerala's achievement in universalising elementary education and in reducing mortality rates; the significance of the relatively high rates of morbidity in the state; and the conjunction of high unemployment rates and high wage rates. All this work was leading him to the view that the Kerala model is a unique product of its own history. In this light, he began to study the history of social development in Kerala and reformulate his ideas on the types of public action necessary to promote rapid change in fields like education and health. Much of his writings in this respect still remain unpublished.

Krishnan was throughout keenly interested in and kept track of similar work on other parts of the country. Being deeply convinced about the importance of literacy, public health and a modicum of social security for mitigating poverty, he came to share a widely felt concern that 'structural adjustment' policies initiated in 1991, emphasising reduced fiscal deficit as an imperative goal, might lead to cuts in public outlays on these programmes. He not only played a key role in preparing a major research project on Human Resource Development under the auspices of the government of India and funded by the UNDP, but enthusiastically took the responsibility for managing it.

The programme has broken new ground in the organisation of social science research in several respects. It brought together a wide cross-section of interested scholars from different backgrounds to discuss and hammer out a research agenda. It devised ways by which a number of researchers from different parts of the country could work in a collaborative and interactive manner.

The results of this project have been pouring in. Krishnan was full of plans for putting them together in a series of publications and for organising workshops to bring the findings and their policy implications to the notice of leading public and political figures and civil servants. His sudden passing is made the more poignant because it occurred just when his last major undertaking was bearing fruit. The messages sent by the participants in this project on hearing of his demise are a moving testimony to their affection and regard for Krishnan. Like them, his numerous other friends and associates will miss his warm and caring presence, his infectious enthusiasm and dedication to work.

Gandhi in the 21st Century

Search for an Alternative Development Model

Vasant Kumar Bawa

Gandhi's espousal of ecologically sustainable and employment-oriented development is all the more significant today as fossil fuel-driven industrialisation and insatiable consumerism engender crisis in resources on a global scale.

THE Centre for Cellular and Molecular Biology (CCMB) one of the 'temples of modern India' inspired by Jawaharlal Nehru's concern for the promotion of the scientific temper in India, was the scene of a two-day seminar in which serving and retired technocrats, scientists, bureaucrats, and others concerned with the future of the Indian polity, economy and society discussed the prospects of adapting the ideas of Mahatma Gandhi in order to tackle some of the major problems facing the country today, at the instance of the Shanthi Foundation, Hyderabad. India does not fall in the mould of the highly industrialised countries, and hence the attempt to imitate the economic model of these countries is likely to fail. Even the export-led growth of the Asian tigers cannot be adopted by India, many participants felt, because of the massive problems of unemployment, and the population explosion which continues unabated today. The director of the CCMB, D Balasubramaniam, made a perceptive remark at the inaugural session that Gandhi had much to say on technology, but little on science. (Perhaps he could have added that Nehru had had a lot to say on science, but had not applied his mind adequately to the adverse consequences of technology, as Gandhi had).

Ever since the publication of *Limits to Growth: A Report for the Club of Rome's Project on the Predicament of Mankind* (New York, 1972), the world has been haunted by the spectre of environmental disaster and the depletion of natural resources. The very next year E F Schumacher published his collection of essays, *Small is Beautiful: A Study of Economics as if People Mattered* (Vintage Books, London). These two works have had a substantial effect on the subconscious of all thinking people, although the day-to-day pressures of politics and economic growth may have given greater importance to the work of scholars like Herman Kahn, who co-authored a book *The Next Two Hundred Years*, published in 1976. Many of us now feel that industrialisation based on insatiable consumerism as an indicator of growth and quality of life has become a threat to the world's environment. It contributes greatly to the continuance of the greenhouse effect, global warning and the depletion of the ozone layer. The obsession with the acquisition of wealth has led to the global trade in armaments and narcotics, and is destroying the natural habitat of the lion, the tiger, and other wild animals. This is endangering not only world peace, but the survival of mankind, and of the earth itself.

It is a remarkable tribute to the perspicacity of M K Gandhi, a young, inexperienced lawyer from Porbander in Gujarat, working in South Africa before the first world war, that in *Hind Swaraj*, his major critique of western civilisation as it had then developed, he had expressed the view that the western way of life would not be sustainable. He came to this conclusion after a study of western anti-industrial writers like Thoreau, Ruskin, and Tolstoy. Gandhi corresponded with the latter, and set up the Phoenix Ashram and Tolstoy Farm in South Africa, based on the ideas that he had then developed. In his recent book, *Mahatma Gandhi: An Apostle of Applied Human Ecology*, (Tata Energy Research Institute, New Delhi, 1996), T N Khoshoo, who was the first secretary of the Indian ministry of environment, quotes N Radhakrishnan who pointed out that Gandhi had successfully demonstrated that "each member of this community could live in harmony with nature. The community life Gandhi was developing consisted of manual labour, tree planting, agriculture, simple life, and crafts". These could not be described as 'utopian ideals', Radhakrishnan continued. "The running and recurrent principle of the community life was to live according to the rhythm of nature and in harmony with what nature offers" (p 10). It was because of his experience of dealing with environmental and development issues that Gandhi, when asked if he would like to have the same standard of living for India's teeming millions as was prevalent in England, remarked, "It took Britain half the resources of the planet to achieve this prosperity. How many planets will India require?" At another time, he remarked, "The earth provides enough for every man's needs but not for every man's greed" (pp 6-7). This concern is entirely in line with that of the world's environmentalists and others in the modern world who organised the Rio summit on environment and development in 1992, and who are carrying on a vigorous debate on the question today.

During the first 10 years after his return to India in 1918, Gandhi was preoccupied largely with political issues and the freedom movement, including the Rowlatt act satyagraha, the Jallianwalla Bagh massacre, and the Khilafat movement and its aftermath. But in 1928 he invited the western-trained chartered accountant and economist, J C Kumarappa, to the Sabarmati Ashram in Ahmedabad. Almost immediately, Kumarappa decided to give up his westernised lifestyle and to become a full-time Gandhian economic analyst and social worker. He founded the Khadi and Village Industries Association, which after independence was converted into the Khadi and Village Industries Commission, with its headquarters in Mumbai. T Krishnamurthy of the J C Kumarappa Memorial Trust, Bangalore, described the conceptual framework of J C Kumarappa and his early work in a paper entitled 'The Economics of Peace'.

M Ramakrishnayya, former deputy governor of the Reserve Bank of India, spoke about the enquiry he had conducted into the work of the Khadi and Village Industries Commission in 1985. He felt the old Gandhians had prevented the adoption of innovations for a long time. Khadi had received a boost during the 1960s, but there was a decline from the mid-1960s till 1978. It was pointed out during the discussion that after the Ramakrishnayya report, a high power committee headed by P V Narasimha Rao had introduced new subsidies for silk, khadi, woollens, cotton and polyvastra. Amount of Rs 10,000 crore has been allotted and production is to be doubled by the end of the Eighth Plan. This shows that, in spite of globalisation, some in the Congress Party are aware of the employment potential of khadi and village industries. Whether the amounts allotted are being wisely spent, however, requires critical analysis. The dialogue on the relevance of Gandhi in the new dispensation must therefore continue.

D K Oza, formerly of the Tamil Nadu government, has devoted himself to the Gandhian movement in recent years. He pointed out the continued relevance of the constructive programme drafted by Gandhi in 1940, and suggested minor changes to it. He pleaded for the re-publication of the writings of Gandhi with new introductions, pointing out that the rural areas were almost in the same state of backwardness they were in under the British rule. He also wanted steps to be taken for a dialogue of Gandhians with Marxists, who could work together to oppose religious bigotry, the intrusion of multinationals, and the criminal nexus among certain groups who run India today.

The CPI leader, K L Mahindra, accepted the suggestion for a dialogue, pointing out that both Marx and Gandhi wanted people's welfare, although their ideologies were different. He stated that Gandhi had not opposed the armed struggle in Telengana (in which Mahindra was an active participant), although he did not support it either. Mahindra

felt that today, except for 25 crores of people in India, the rest are outside the global market. Thus, there is great scope for Marxists and Gandhians to work together to provide employment to the rural people, oppose corruption and women's exploitation. Gandhi was clearly opposed to consumerism, as he wanted ministers to get a salary of Rs 500 per month, and peons Rs 50 per month. Mahindra felt that a proper mix of handicrafts, agriculture and technology is called for in the present context. We have to strive for self-reliance, as distinct from self-sufficiency, which is not possible, he argued.

The ideological and social framework of the Gandhian ideology in the present context was explained by D Gopalaswamy of the Gandhi Centre, Visakhapatnam, and the Gandhian social worker and reformer, Lavanam, whose father, Gora, had been close to Gandhi. An economist, Prabha Panth of Osmania University, spoke about the religious, ecological and economic aspects of the crisis of modern humanism. She suggested that the ecological and long-term impact of different forms of production and consumption should be reflected in the tax and subsidy policies of governments. For instance, bicycles and cycle-rickshaws could be subsidised, while taxing fossil-fuel driven vehicles. Secondly, research should be directed on eco-friendly lines. A switch in the technoloy base has to take place from fossil fuels to solar energy, from synthetics to cotton and biodegradable fabrics, and from inorganic to organic fertilisers. Moreover, "eco-friendly entrepreneurship, ecological management and ecological research must be integrated at the post-secondary stage, in order to supply the human inputs for the above measures".

While Gandhian ideology faces the challenge of globalisation, the seminar participants were able to point out some of the lessons of the Nehru era, when some Gandhian institutions were adapted to the post-independence scenario. H W Butt, who had headed the Extension Education Institute of the ministry of agriculture at Nilokheri from 1959 to 1970 for training the faculty of agricultural universities, home science colleges, principals of gram sevak training centres and the like, spoke about the village work initiated by Gandhi and some of the reasons why it did not fulfil its objectives in the post-independence period. During discussion, a brief reference was made to the Bhoodan movement of Vinoba Bhave, which spread from Telengana all over India, and received official patronage, but suffered from major organisational defects. The concept of trusteeship also came in for discussion, and is likely to form the subject of a later seminar of the Shanthi Foundation.

In the early 1960s, Jayaprakash Narayan invited to India the British economist, Schumacher, whose early essay, 'Buddhist Economics' had praised the Burmese for limiting their wants. Schumacher's visits to India gave an impetus to efforts already under way in the Planning Research and Action Institute, Lucknow, when Sucheta Kripalani was chief minister of Uttar Pradesh. A former director of the PRAI, Anand Sarup, could not attend the seminar, but sent his paper which was presented by the present writer. It highlighted the crucial role played by M K Garg of the PRAI, who pioneered many viable small-scale technologies, such as the pit method of leather tanning, standardised gobar gas plants, white-ware pottery, crystalline sugar, and small-scale cement plants. It is important that these products, as well as many newer ones like solar cookers, should be re-examined, revived and absorbed into the commercial market stream of small industry today, instead of surviving as isolated pockets in government institutes. Subsidies may be required initially, but ultimately the product must sell on its own merits in the market economy.

Anil K Rajvanshi of the Nimbkar Agricultural Research Institute, Phaltan, Maharashtra, presented an important paper on a decentralised energy model, which he has practised for several years in Phaltan. He compared sustainability with a chair, which must have four legs, viz, energy-related, economic, environmental, and socio-cultural aspects. His article, 'Energy Self-Sufficient Talukas, a Solution to National Energy Crisis', was published in the *EPW*, (December 23, 1995). R Rajamani, former secretary to the environment ministry of the government of India, presented an original proposal on eco-tourism, which he proposes to develop at future meetings of the Shanthi Foundation. A S Rao, founder-managing director of ECIL, urged a "determined pursuit of self-reliance in development", and pointed out that 'doles' like two-rupee rice cannot replace the concept of full employment. Arif Waqif, an economist who has helped to promote SAARC through several technical-support institutions, pointed out that the new economic trends in the west were not leading to an equitable society. There was talk of the 'new poor' in the west today. Spain had doubled its GDP in 10 years from 1982, without creating a single additional job.

The final statement of the seminar, which was developed from a draft by P V Shenoi, director, Institute of Social and Economic Change, Bangalore, expressed the view of the participants that the principles on which Gandhi built his political and social thought were: (i) peace and non-violence, (ii) universal brotherhood and harmony from the individual and the family to the country and the world, (iii) working towards a society that is not exploitative of nature and human beings, (iv) rationality, and adaptability to change in conditions, and (v) simple living and high thinking. The following means were recommended for adoption to fulfil the above Gandhian principles, which those present fully accepted: (1) social reforms, women's education and empowerment; (2) a balance between industrial and agricultural activities and rural and urban development; (3) trusteeship for managing of natural and productive resources; (4) adoption of such technologies as are employment-friendly, eco-friendly and market-friendly; (5) opposing unbridled exploitation of natural and productive resources which promotes consumerism; and (6) adoption of an energy strategy that is decentralised, ecologically viable and non-exploitative.

The dialogue among the participants is to be continued in Hyderabad, and generally in southern and western India, from where most of the participants came. The next meeting will probably be in Bangalore in October, where it is hoped that access to the work of field institutions like ASTRA of the Indian Institute of Science, and the J C Kumarappa Memorial Trust will be available. It is proposed to publish the proceedings of these seminars in summary form

Ethnicity, Class and State in Pakistan

Feroz Ahmed

The current ethnic tensions in Pakistan are rooted in a number of developments: the increasing ethnic heterogeneity of the country's provinces, the growing economic and political interdependence, and the ongoing processes of cultural homogenisation as well as the rapid urbanisation, and the sharpening ethnic asymmetries within Pakistan's elite. These very developments, however, offer the opportunity for seeking solutions in a multi-ethnic framework.

IN the era of globalisation of technology, capital, markets, and communications, a centrifugal phenomenon described by Isaacs more than 20 years ago as 'massive retribalisation' of the world, is proceeding on an ever wider scale [Isaacs 1975]. Ethnic, religious, and caste conflicts are tearing apart not only the former Soviet republics and eastern Europe, but many third world countries too. Pakistan, is one such country which is witnessing one of the most serious ethnic conflicts of its history. In 1995 alone, more than 1,700 persons, including more than 200 law enforcement personnel, were killed in its major city, Karachi (Yasser Hossain, 'Whodunnit?' in *Newsline*, November 1995) A militant ethnic party, the Mohajir Quomi Movement (MQM), is in violent confrontation with the government. Ethnic polarisation in the province of Sindh is almost complete and in Balochistan it has shattered the traditional fraternity between ethnic groups.

Concept of Nationality

The term 'nationality' has been in common use in Pakistan to denote ethno-linguistic communities. It has been in the vocabulary of the nationalists and Marxists and now even right-wing - politicians from different provinces, as well as Marxist and nationalist scholars The problems of language, culture, regional autonomy, allocation of resources between ethnic communities, and political participation have been subsumed under the rubric of 'national question' or 'nationality question' [see Ahmed 1972; Zaidi 1992].

Stalin defined nation as a "historically evolved, stable community of language, territory, economic life, and psychological make-up, manifested in a community of culture". All of the foregoing characteristics must be present in a community to qualify as a nation. Stalin's definition precluded race, and emphasised emergence of nations as a phenomenon of bourgeois development. Neither Stalin nor Lenin, who emphasised national self-determination and formulated an elaborate nationality policy, made any effort to distinguish between nation and nationality.

However, later day Soviet scholars have tried to differentiate between nation and nationality by positing the nationality theory on the bedrock of the Marxist theory of historical materialism. Thus, the various stages in the development of productive forces were linked with corresponding types of ethnic communities and their levels of ethnic consciousness. Significantly, Gankovsky (1964) adds the subjective criteria of spiritual culture and ethnic consciousness to the objective criteria required of a nationality. A distinction is, therefore, made between the 'nationalities' of the slave-owning and feudal societies and bourgeois 'nations' of capitalist and socialist stages. Gankovsky recognised that Bengalis, Punjabis, Sindhis, Pushtoons, and Balochs had all developed as feudal nationalities by the time of the British conquest. Since the Soviet constitution, while categorising the major ethno-linguistic groups as nationalities and organising the territory on nationality-based republics, recognised in theory their right to self-determination, the right was, therefore, supposed by third world adherents of the Soviet nationality theory to be an inherent right of any ethnic community in a multi-ethnic state that met the criteria of Stalin's definition of a nation, and thus of nationality.

In Pakistan's context, the Marxist definition of nationality became the cornerstone of the nationality position of the multi-ethnic National Awami Party (NAP) and other leftist and regional nationalist formations. Among the political leaders, cadres, and intelligentsia of the dominated nationalities, as well as among Punjabi and Urdu-speaking leftists, it became axiomatic that Punjabi and Urdu-speaking groups dominated the state, while Bengalis, Sindhis, Pushtoons, and Balochs were the oppressed nationalities.

For the governments of Pakistan, the word nationality has remained anathema to national integrity and evoked strong reaction. The government passed a law in 1975 prescribing a seven-year imprisonment for individuals advocating the presence of more than one nationality in Pakistan. At least part of this fear can be attributed to the failure of the nationality theory to distinguish between the characteristics of a nation and a nationality, while advocating the principle of nations' right to self-determination. Lenin himself had emphasised ad infinitum nations' right to self-determination, without clearly distinguishing them from nationalities.

In Pakistan itself, not only did Bangladesh secede, but demands for the independence of Pushtoonistan, Sindh, and Balochistan were raised from time to time. These actions were justified by some in the name of the Leninist theory of the right of nations to self-determination. The Marxist concept of nationality in Pakistan, beside presenting the problem of being perceived as an antithesis of the goal of national integration, has been found to be less than adequate to address some concrete issues of group identification.

First, the Marxist definition of nation – and thus nationality, in its simplest form, equates one language with one nationality. Therefore, the question has often been raised: how could the speakers of Balochi, an Indo-Iranian language, and Brauhi, a Dravidian language, be members of the same Baloch nationality? This, obviously, is a somewhat minor problem, emanating from overlooking the dynamic nature of ethnogenesis and subjective aspects of nationality. People speaking Brauhi at home in Balochistan are integrated in every respect, including clan organisation, with those speaking Balochi alone, and have considered themselves nothing but Baloch

Second, for nearly two decades there has been a movement for the recognition of Siraiki language and nationality in Punjab. The 1981 census, for the first time ever, listed Siraiki as a separate language rather than as a dialect of Punjabi. As a result, Siraiki was reported to be the language of 9.8 per cent of Pakistan's and 14.9 per cent of Punjab's households [Government of Pakistan 1983]. This makes the Siraikis the fourth largest community after Punjabis, Pushtoons, and Sindhis. However, questions still persist about the stability, territorial compactness, economic cohesion, and consciousness aspects of Siraiki-speaking people. The objective and subjective criteria on the basis of which other communities in Pakistan have been recognised as nationalities are not easy to satisfy in the case of Siraikis. However, it may be possible to address the questions of group identification, and cultural, economic, and political

demands in an alternative conceptual framework.

A third issue of group identification which has illuded the Marxist concept of nationality and the approach based on it to address the problems of ethnic communities is the question of Mohajir identity and group demands. Mohajir is the term which was used by Muslims who migrated from India to Pakistan at the time of the partition of 1947 – 70 per cent of these refugees in (west) Pakistan were Punjabis who settled mainly in (west) Punjab, spoke the same language, assimilated to the indigenous population, and shunned the Mohajir identity. However, the Urdu-speaking refugees from different parts of India, who settled mostly in Sindh, have continued to maintain the Mohajir label for their group identification.

Even with this linguistic homogeneity, the Urdu-speaking people do not satisfy the definition of a nationality. While they constitute a community of language and share a common non-material culture and psychological make-up, they are not a stable community, historically evolved in the land in which they now live. They do not form a community of territory, for their large concentrations in the urban centres of Sindh are not only established in the territory of the historical nationality of the land (Sindhi), but they vie for space with other migrant groups, principally Punjabis and Pushtoons. Nearly one-third of the Urdu-speaking people are settled in Punjab where they are scattered far and wide. What these contraindicators of nationality features among Urdu-speaking people suggest is not that the Urdu-speaking people should have an unequal or even different status than other ethnic communities, but that the nationality framework is not adequate to deal with the issues of an ethnolinguistic community which is as large as 7 per cent of the country's population (more than twice as many as Balochs) and one-fifth of Sindh's population.

Finally, the processes of economic development, economic integration, inter-province migration, international migration, urbanisation, political alliances and integration, and cultural assimilation, have brought about changes in Pakistan which make the linguistic, cultural, social, political, and economic problems of ethnic communities exceedingly difficult to be addressed in the iron framework of the highly objectified Marxist category of nationality.

Ethnic Groups: An Alternative Framework

Sociologists understand that social categories are not objective social facts but theoretical constructs or abstractions of reality to categorise and analyse social and behavioural phenomena. Most constructed social categories have the problem of defining the boundaries, and all the individuals or elements cannot be neatly assigned to watertight compartments. Any alternative concepts that may be suggested would, therefore, have some problem in applicability. The important point is to see which of the alternative concepts is more inclusive for the purpose of analysis and, in the case of Pakistan's ethnic question, allows for a more equitable treatment of different groups. The alternative concept suggested here is ethnic group.

The *International Encyclopaedia of the Social Sciences* defines an ethnic group as a "distinct category of the population in a larger society whose culture is usually different from its own. The members of such a group are, or feel themselves, or are thought to be, bound together by common ties of race or nationality or culture". The encyclopaedia definition does not include territory as a criterion, and mentions culture generally without emphasising a special position of language. *Encyclopaedia Britannica* defines an ethnic group as follows: "a social group or category of the population that, in a larger society, is set apart and bound together by common ties of race, language, nationality, or culture". As a general case, at the core of ethnic identification are the "primordial affinities and attachments," derived from place of birth, kinship relationships, religion, language, and social practices that come "natural" to an individual to attach himself to other individuals from the same background [Geertz 1967]. Students of ethnic identity formation and change have noted that group identities change, new cultural or ethnic identities are created, and old ones disappear [Brass 1991; Horowitz 1975].

Brass (1991) defines an ethnic group on the basis of both objective attributes and subjective self-definition, and traces the stages in the ethnic community formation. Brass' definition of an ethnic category begins with the objective cultural markers of language, religion or race, diet, dress or customs, which are susceptible to change and variation. When a group uses these cultural symbols in order to create internal cohesion and differentiation from other groups, it becomes a subjectively self-conscious community. Ethnic identity also requires a claim to status and recognition either as a superior group or at least a group equal to other groups. In the next – but not inevitable – stage of development the elites of the self-conscious community articulate social, economic, and political rights of the group as a whole, and resort to political mobilisation of the community. Brass (1991) terms ethnic communities of 'political significance' as nationalities.

The prevalent usage of the concept of ethnic group thus, does not include territory as a necessary condition. Freedom from such a binding condition makes the concept more inclusive. Further, common culture of the group is universally deemed to be a necessary condition for a group to be considered a distinct ethnic group. However, possession of a distinct language is not always a precondition. In applying the concept of ethnic group to the conditions of Pakistan, language would be the central defining feature of an ethnic group. Since all linguistic groups have more or less distinct cultures, in addition to many overarching cultural characteristics that they share in common, the criterion of culture would also be satisfied. So far as the subjective dimension is concerned, all the major groups are already characterised by the possession of ethnic self-consciousness, and would qualify as ethnic communities. Others possessing the objective attributes but not subjective self-consciousness would be accepted sooner or later by the larger society if they assert their identity and demand status as a distinct ethnic community.

With ethnic group or ethnic community defined broadly as above – not requiring the conditions of an historically-evolved, stable community of territory, there should be no problem in categorising the Urdu-speaking people of Pakistan as an ethnic community, on par with Punjabis, Sindhis, Pushtoons, Balochs, Siraikis and others. However, the leaders of the MQM, who demand the recognition of Mohajirs as a separate nationality (the 25-point 'Charter of Resolutions' (1988) included as the first demand: "Mohajirs be constitutionally declared a separate nationality in Pakistan". Reprinted in *The News* (Karachi) October 14, 1994) insist on a broader definition of Mohajir that includes not only the Urdu-speaking people, but also all other non-Punjabi groups whose members also migrated from India and settled in Sindh. Although recognition of Urdu-speaking people as a distinct ethnic community does not pose a theoretical problematic, extending such category to include ethnically diverse groups of self-identified Mohajirs may still be problematic.

Ethnicity and State

The state is both a resource in itself and a distributor of resources. In a multi-ethnic state, it is of importance to assess how these resources and state power itself are shared by the different ethnic groups, and whether state power is used differentially for the

different ethnic groups. The view of the state taken in this writing is informed largely by the work of Hamza Alavi (1966) who pioneered the analysis of the special role of military and bureaucracy in post-colonial societies by reference to Pakistan, and developed it into a theory about the nature of the state in post-colonial societies [Alavi 1982].

The Pakistani state can be seen as a neocolonial (peripheral!) state, linked as an appendage to the global capitalist economy and politically subservient to the major capitalist powers (metropolis!). The state, while perpetuating the existing relations of production and distribution, enjoys relative autonomy. The military and bureaucracy not only command the instruments of state power, but pursue their own interests almost independently of the dominant capitalist and landlord classes. Because of the special locus and role of the educated middle class in the society and vis-a-vis the state, the latter accords it a privilege, or at least a sensitivity, that is not extended to the workers, peasants and other subordinated classes. Further, as in many Latin American, Asian and African countries, the Pakistani military is more than an equal of the civil bureaucracy and has acquired the role of the ultimate arbiter of political power. Since the bourgeoisie and the landlord class are social classes and military and bureaucracy are wielders of the state apparatus, at one level of analysis it is important to keep the two separate. However, while analysing the class and power asymmetries in a multi-ethnic society, it becomes useful to treat both these types as elements of a common aggregation. Therefore, we shall refer to the landlord class, the capitalist class, military, and bureaucracy as various elements of the ruling class.

The different ethnic groups in Pakistan do not have an identical class composition. Nor do they have an equal, or even proportional, representation in the higher echelons of military and bureaucracy. Therefore, the various elements of Pakistan's ruling class have a disproportionate representation of the various ethnic groups in society. This situation represents a case, not of cross-cutting cleavages, but of overlapping of class and ethnicity to a large extent.

Demographically, the Punjabis comprise the largest single ethnic group (48.2 per cent) in Pakistan's population, followed by Pushtoons (13.1 per cent), Sindhis (11.8 per cent), Siraikis (9.8 per cent), Urdu-speaking (7.6 per cent), Baloch-Brauhis (4.2 per cent) and Hindko-speaking (2.4 per cent). No statistics by ethnic group are available for the civil service and military ranks. However, it is an accepted fact that the officers and the rank and file of the armed forces are mainly Punjabi and Pushtoon, the former generally believed to be nearly 70 per cent and the latter 25 per cent to 30 per cent. The Urdu-speaking continue to be in the higher ranks of the military, but they are much less than their population proportion. There are no senior Sindhi or Baloch officers in the armed forces. Similarly, in the senior civil bureaucracy, the Punjabis and Pushtoons have a disproportionately high representation, the Urdu-speaking, a one-time dominant fraction, have slipped but still maintain a proportionately large presence, the Sindhis, despite some recent appointments to high positions, still are under-represented, and the Balochs, also under-represented, are too small a group to have any influence even if given a proportional share.

The ethnic composition of the dominant classes is also asymmetrical. The capitalist class of Pakistan consists mainly of Punjabis and members of the small business communities who have migrated from Gujarat and Mumbai and who have now begun to identify themselves as Mohajir. The Pushtoons are well represented in all strata of the capitalist class, having established their businesses in all four provinces. Traditionally, there have been only a few big Urdu-speaking capitalists, but an Urdu-speaking bourgeoisie is well-entrenched, owning medium and small businesses. There is no Sindhi bourgeoisie to speak of. Similarly, there is no Baloch capitalist class.

The landlord class, which continues to be of analytical and political interest, also has an uneven presence among different ethnic groups. The landlords with the largest estates and greatest political influence are to be found in lower Punjab (mainly Siraiki-speaking) and Sindh. Feudal-type relations of production still persist in parts of NWFP and there are many powerful Pushtoon landlords. However, the more prominent of them also have business. Many of the traditional Baloch 'sardars' (tribal/clan chiefs), by usurping communal lands and privileges, have turned themselves into landlords, but most sardars are of modest means who depend upon government's largesse for their well-being. The Urdu-speaking community, being urban, has no landowning class.

Finally, the relative strength of the educated middle class, also varies greatly among the different ethnic groups. The Punjabis, both because of their population size and relatively extensive higher education, have the largest educated middle class in absolute numbers. However, the Urdu-speaking community, because of its urban background and traditional reliance on education for social mobility, has relatively the largest educated middle class. The middle class among Pushtoons and Sindhis is much less developed than among Punjabis and Urdu-speaking people, but is expanding rapidly The Baloch middle class is still rudimentary, but gaining influence within its own ethnic group.

Several demographic, economic, social, political, and cultural trends in Pakistan are affecting: (a) the status of certain ethnic groups; (b) inter-ethnic group relations; (c) the relationship between state and ethnic groups; and (d) policy options pertaining to ethnic questions.

Large-scale inter-province migration, mainly from Punjab and NWFP, to Sindh, continued existence of more than a million Afghan refugees, and the presence of millions

of illegal immigrants have brought about a significant shift in the ethnic composition of Pakistan, especially, that of Sindh and Balochistan. Urbanisation, spurred by internal and international migration, often contains ethnic aspects. In Sindh, which was already 43 per cent urban in 1981, urban growth due to net migration, especially in Karachi, has largely been due to the 'non-indigenous' groups. This trend exacerbates the already existing urban-rural divide between Sindhis and non-Sindhis.

Regional and ethnic economic disparities created by Pakistan's pattern of economic development have been noted by scholars. Despite these negative trends, the overall thrust of economic growth and economic activities has continued to be integrative of the capital, markets and labour. Much debate and discussion have taken place in south Asia about the nature and consequences of development in the agrarian economy. However, it is quite clear that despite persistence of archaic instruments of production, old oppressive class relations, social power of the big landlords, and traditional values, the agrarian system inherited at independence and conveniently labelled as 'feudal' no longer exists. Capitalist development, with all its distortions and unevenness, has intruded into the agricultural sector of Pakistan's economy, not supplanting, but grafting itself on the old system. As a result of the technological changes, increased population density in the rural areas, and social changes facilitating alternative means of acquiring wealth and power, the traditional 'feudal' class is no longer tied to the land, and its younger members are seeking a share in the professions, capitalist sector of the economy, and state power, much the same way as other elements of the ruling class.

In a political system with numerous small and regionally-based political parties, the electoral process and the quest for power has required the building up of alliances across not only ideological lines but across regional and ethnic lines, both within and among provinces. This political deal-making has engendered interesting examples of ethnic and regional interdependence and mutual trust among parties.

Although Urdu is the mother tongue of only 7 per cent of Pakistan's population, historical circumstances have placed it in the position of being officially designated as the national language of Pakistan. Urdu has clearly established itself as Pakistan's principal language of education, mass communication, politics, business, and inter-province co-ordination. An increasing number of Pakistanis whose mother tongue is not Urdu are learning to speak and understand it. In the 1961 Census, twice as many persons were reported to be speaking Urdu as persons whose mother tongue was Urdu. In 1981, 70.3 per cent of the 1,47,45,234 literate persons were literate only in Urdu. However, the impact of this assimilation is not uniform on different ethnic groups and in different regions.

Ethnic boundaries and ethnic identities in Pakistan are too fluid to be addressed by a framework requiring a highly objectified definition. If the purpose of public policy and political discourse is to secure justice and equality for all groups or even for one's own group, then the concepts which imply stratification by designating some as nationalities and others as merely linguistic communities would largely be counter-productive. Due to the increasing ethnic heterogeneity of Pakistan's provinces, the growing economic and political inter-dependence, and increasing cultural homogenisation, it has become imperative and even possible to seek solutions to the regional and ethnic problems in a multi-ethnic framework. For example, redrawing of provincial boundaries, which might have been possible in the early years of Pakistan, is no longer a viable, or even a problem-solving, option.

Although the process of urbanisation, particularly in Sindh and Balochistan, is taking place to the demographic and economic detriment of the local population, it would be a fallacy to view the urbanisation phenomenon as only an ethnic problem. However, in order to mitigate the divisive effects of urbanisation, non-coercive preventive and remedial actions would be needed.

Undoubtedly, the ethnic asymmetries within Pakistan's 'elite' and the substantial overlapping of class and ethnicity pose the greatest challenge to removing ethnic disparities and promoting harmony and national integration. Given the ethnic specificity of the armed forces and the spending of the largest portion of the budget on defence, a more equitable distribution of resources among ethnic communities is unthinkable without drastically altering the ethnic composition of the military or/and reducing the military budget. The civil bureaucracy has been more amenable to ethnic diversification, and given sufficient political pressure, the bureaucracy can be made to be more inclusive.

The chasm between the reality and perception of the Urdu-speaking people concerning their deprivation underlines the inadequacy of the paradigms which look at the 'class as a whole' or the 'ethnic group as a whole'. Neither the Urdu-speaking people, 'as a whole', nor the middle class – even the lower middle class – can be viewed as deprived in comparison with other ethnic groups or the multitudes of impoverished peasants, workers, and the *declasse* (underclass!) elements. The Urdu-speaking lower middle class, having struggled hard to get higher education, found the avenues for jobs and advancement blocked. It followed the model of the deprived or dominated groups (Bengali, Sindhi) to blame ethnic discrimination for its plight rather than following the model of the dominant (Punjabi) group of blaming the 'system' or class oppression. It manipulated the cultural symbols of its group to mobilise the rest of the classes of its ethnic group in a militant nationalist movement.

While national integration is a desirable goal, the primary emphasis on integration in the past has led to oppressive about ethnic diversity and disparities. On the other hand, if the primary emphasis is placed on promoting equity and harmony among different ethnic groups, national unity, security, and integrity would be the logical outcomes. Suppression of ethnic rights in the name of security, unity, or integrity of the country will have the opposite effect.

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Myths and Realities of the Chiapas Uprising

James Petras
Steve Vieux

Without minimising the importance of the specificities of Chiapas or the relevance of race/class in defining the originality of the movement; the process of linking local peasant movements with urban activists follows a common pattern earlier played out in Indochina, China and in some parts of Latin America. What made the Zapatista uprising appear novel was the timing – it occurred during a period of worldwide leftist retreat and in particular at a moment when other central American guerrilla movements were laying down their arms and entering into political deals with the neo-liberals in power.

THE Zapatista uprising in Chiapas has generated hundreds of articles and dozens of books. The lines of argument about the origins and nature of the struggle focus on several themes: according to some it is a revolt by poverty-stricken Indians; for others it is part of the new social movements, distinct from the older class-based movements linked to ideologies. One writer has labelled it a post-modern rebellion.[1] These interpretations emphasise the novelty, culture bound and non-ideological nature of the uprising as a means of giving credence to its authenticity, legitimacy and public appeal. The Mexican government and its intellectual supporters, on the other hand argue that while many of the Indian demands are worth discussing, revolutionary outsiders manipulated the local population, exploiting their grievances to further their own political agenda.[2]

Thus the debate is polarised between the left which emphasises the 'indigenous' origins of the revolt and the right which counters with the notion of 'external subversion' as central to the revolutionary undertaking The legitimacy of the struggle in both cases is linked to its authenticity which is associated with particular racial/regional origins. This is unfortunate since the legitimacy of the struggle has to do not only with the conditions that gave rise to the discontent, but with the nature of the organisations, programme and leadership involved in the struggle against those conditions.

And in these areas the issue of 'internal' versus 'external' forces is much more complex than a dichotomous view would allow. In brief the fact that organised revolutionaries played an active role in the formation, organisation and programmatic struggle in Chiapas does not in any way minimise the authenticity or legitimacy of the revolution. Revolutionaries – many of them ethnic and geographic outsiders – helped focus national debate and contributed to negotiations with the state. What is new and authentic is the dialectical interplay between on the one hand the local traditions of solidarity within the communities and local authorities committed to their people and on the other hand Marxist revolutionaries, committed to building a revolutionary movement, with a vision of an alternative society, with both sides capable of learning and adapting to practical experience.

The prolonged process of building the Zapatista movement was based on the reciprocal relations between leftist intellectuals learning the norms and accepting the autonomy of the Indian communities and community leaders attracted and recruited to the prospects of political struggle based on participatory democracy. The Indian communities had a history of relations with leftist political activists, particularly peasant organisers prior to the Zapatistas.[3] The decision to build the Zapatista movement – a peasant army linked to the organised community – did not occur in a political vacuum nor did it merely link up with traditional Indian-peasant structures. As one Zapatista community leader stated, "prior to the 1980s we were in the ARIC Independiente. In 1987 the Zapatistas began recruiting people. It covered the whole community and everyone was recruited."[4]

The necessary condition for successful organisation was precisely the combination of prior organisation and the predisposition to struggle of Indian communities linked to leftist urban organisers respectful of local leaders and structures that facilitated the 'recruitment' of whole communities. To this day, the relations of active solidarity and overlapping membership between guerrillas and peasant communities endure. As one community leader noted, "here in the community, we make our own rules and our own laws. Here there are no representatives from the government."

Innovation and Tradition

Contrary to the conventional notions of the Zapatista uprising as either a purely indigenous uprising of hungry Indians or a conspiracy of urban Marxists, the Zapatista uprising was a product of the synergy of local activist Indian communities and urban intellectuals each contributing organisational, programmatic and leadership qualities. Each complemented the other: the Indian communities taught the urban intellectuals specificities of the conditions and needs of the local communities, while the intellectuals brought international national, strategic and military-political understanding. Without minimising the importance of the specificities of Chiapas or the relevance of race/class in defining the originality of the movement, the process of linking local peasant movements with urban activists follows a common pattern earlier played out in Indochina, China and in some parts of Latin America. What made the Zapatista uprising appear novel was the timing – it occurred during a period of worldwide leftist retreat and in particular at a moment when other central American guerrilla movements were laying down their arms and entering into political deals with the neo-liberals in power.

By emphasising the coincidence of the Zapatista movement with other revolutionary experiences, we want to argue that there is a continuity with previous Marxist-influenced revolutionary processes; secondly, that Marxist practices and theories of action had continued relevance, that Zapatismo could not be assimilated to any 'post-modern' conception of politics. In sum the Zapatista movement combined innovation and tradition; it was not born from nothing, nor did it simply recycle formulas from the past. The highly political – more specifically anti-imperialist – nature of the movement was clear in the timing of the uprising. As one Zapatista leader put it, "with NAFTA nobody except the rich is going to benefit. We understood this and we rose up."

The tight structure of the local community, the norms and close personal relations were instrumental in facilitating the strategic goals outlined by the guerrilla leadership. This is very clear with regard to the security measures adopted during the prolonged periods of political organisation. As a Zapatista leader put it: "everyone was obliged to refrain from drinking. During the whole 10-year period of clandestine organisation it was important to avoid alcohol, above all for security reasons, because when one drinks he tells all."

The surprise element and the capacity of the Zapatista movement to avoid state repression is rooted in the powerful internal linkages that facilitated long-term, large-scale organising.

The movement was built by political education and direct action which resolved the immediate problems of the communities. While long-term organisation of the guerrilla movement was undertaken, immediate land occupation to provide peasants with land was not uncommon. While describing the building of the clandestine movement, the Zapatista leader also pointed out that: "We threw out the landowners and occupied their land." The social bonds, self-confidence and discipline accumulated for strategic goals also served to solve immediate problems. Moreover, the small victories built the larger movement-infusing the members of the community with the idea that they were capable of winning in struggle and changing the society.

Community and Leaders

The relation between the communities and the guerrilla leadership is not completely unproblematic. There are differences and tensions. Differences in tactical appreciation and socio-economic needs.

For example the February 7, 1994 government invasion and occupation of the Zapatista communities led to the destruction of the basic food supply. Under severe duress some of the leaders of these communities decided to enter into negotiations with the government to secure economic assistance, thus setting up a parallel structure to the guerrilla/government negotiations. This led other Zapatista community leaders and of course the guerrilla leadership to denounce them as 'traitors'.

A second example of the tactical differences was in the same context of the government invasion in February. The government, feigning 'goodwill' in entering negotiations, suddenly launched a massive military offensive to cut-off the guerrilla movement from its social/political base of support in the Indian communities. Upon hearing of the military approach, the peasant militias were prepared to resist. The guerrilla leaders counselled tactical retreat: "the [government] deceived us. We were negotiating and all of a sudden, the army enters. Sixty thousand. The people wanted to confront them. The 'companeros' asked, 'why did they [the guerrillas] let them enter?' But the commandantes said we should not fight, that civil society doesn't want a war and that we didn't have to die."

For the peasant militias the issue of warfare was based on a moral distinction between 'good faith movements' and 'bad faith governments'. The question of another instance of broken promises, dishonourable behaviour and deception was foremost in the militia persons' eyes. For the guerrillas, political and strategic military considerations were paramount: the reaction of civil society, the correlation of politico-military forces at the national level, the accumulation of political support. Ultimately the authority, if not the arguments, of the commandantes was decisive. The peasant communities withdrew to the mountains, letting the military occupy their villages. The contrast between the spontaneous response of the peasant militias contrasts with the political calculations of the guerrilla leaders. But ultimately mutual trust and confidence led to what was essentially the correct decision to withdraw in the face of overwhelming force to fight another day. In one sense the resolution of differences could be taken as an example of community decisions being over-ridden by guerrilla leaders. Most likely however the decision was the product of democratic discussion and mutual agreement that retreat was realistic and in the best interests of the community.

Community Decision-Making

The transformations in the communities wrought by their politicisation is manifested in the dramatic changes in gender relations and community decision-making. Just as there are democratic debates between militia leaders and the commandantes, so within the communities there are debates and discussion on policy issues. For example, after the decision was taken to withdraw rather than resist the army invasion, there was a second issue: whether the women would also join the retreat or remain in the village. In the initial vote the men decided that they would withdraw and the women would remain. The women rejected that proposal and successfully changed the vote. One community leader described the process in the following fashion: "We met in a general assembly and we decided that we, the men, would go to the mountains. But the women insisted that they would also go and so we all left. We were hidden in the mountains from February 10 to March 2." The voice and vote of the women was decisive in changing the nature of the retreat and more importantly reflects the respect and consciousness among the militia men that they need to consult with women on questions of survival and warfare.

The change in gender relations is clearly manifest in the community response to the incorporation of women into the guerrilla army and their acceptance of sexual equality in the mountains: "There were many young girls who went to the mountains. The community looked upon it favourably, because they were struggling for all of us. In the mountains they give the women contraceptives and if they wish to marry and she gives her consent, they get married in the mountains. There they participate in everything like the men, some even command troops." The traditional assemblies characteristic of the democratic practices of the local communities incorporate the modern proposals for gender equality from the urban activists, in a case of the complementary reinforcement of democratic decision-making.

Counter-Insurgency against Solidarity

The assertion by the government that outside extremists were manipulating local communities and exploiting grievances was contradicted by their counter-insurgency strategy which was premised on the assumption that there were profound strategic links between the communities, based on family, class, ethnic and community ties. The army invasion of February was designed to undermine the economic ties between the communities and the guerrillas on one side and the guerrillas' politico-military support of the communities in their efforts to recover land from the large landowners. The military's principal task was to destroy the food supply, crops, and farm implements of the communities. The purpose was to cut off the food supply of the communities and from the communities to the guerrillas. At the same time, by starving the communities, the government sought to create Indian peasant dependence on state charity as well as isolation from the guerrillas. With imminent hunger hanging over the villages, the government hoped to divide the communities, drawing them into parallel negotiations and thus undermining the guerrillas. One community leader described the process as follows: "The army took everything that we had: it destroyed the potable water pipes, electricity, cattle, food. They destroyed or took everything. Now they try to buy off the leaders. But here in this community those officials who want to buy off peasants cannot enter. If they come in we take them to the mountains, so that

they know what it's like. We are the base of support for the guerrillas. We fed them all. Afterward a great deal of aid arrived and we could rest a bit. Now the conditions are very bad. The army took everything and we can't plant because we don't have seeds; we can't sell or buy what we need either. The blow [the invasion] that the army gave us is going to cost us two years to recover from. The men are in the war and that's delaying the harvest."

The nexus between the guerrilla army, the community militias and the community is based on the overlapping family, community and personal linkages which reinforce class, social and political solidarity. The government's repressive policy is directed precisely at creating conflict and competition for scarce resources between families, communities and the guerrillas. It is clear however that this strategy has had only limited success. Class, ethnic and community solidarity has put severe limitation on the co-optive strategy. The guerrilla-community ties persist despite the army's cutting of the food supply and efforts to end co-operation.

The use of force by the state reveals another of the basic changes resulting from the consolidation of the Zapatista movement: the end of landowner hegemony. The landowners by themselves and depending on local resources can no longer control the region. The landowners can survive only as long as the military is permanently guarding their property. When the military withdraws from a farm, the landlords remove any mobile assets and leave. Zapatista peasants quickly reoccupy the terrain. As one peasant leader noted: "With the army invasion came the big landowners ('finqueros') and they carried off the cattle that they could not take before." Disputed hegemony has been resolved in the favour of the peasants despite the military presence. It is interesting to note that the army was not disposed to stand permanent guard for the landowners desptie the regime's hostility to the Zapatista movement.

Novelty of Zapatista Movement

The Zapatista movement is essentially a guerrilla movement dependent on the peasant communities. It has no 'civilian arm'. Unlike the other guerrilla armies in central America, the commandants must consult with the communities. And the communities are adamant on one point: there can be no peace settlement without first solving the agrarian issues – land reform, credit, marketing, prices, etc. The issues of disarmament and democratisation or more inclusive electoral processes depend first and foremost on meeting the peasant demands for land and justice. In this sense the Zapatista commandantes are fundamentally different from the Salvadoran, Guatemalan and Nicaraguan leaders who traded off peasant agrarian issues and armed struggle for inclusion in the electoral process. The end result was the upward mobility of the ex-guerrillas (in parliament, NGOs, city hall and other positions) while the peasants were left in the same poor and landless condition. While the other central American 'commandantes' demoted the agrarian reform issue to secondary or worse status to secure a place in the electoral process, arguing that 'democracy' was a 'basic' condition for securing agrarian reform. In practice the electoral process merely confirmed the Right in power and in control of the land. Agrarian reform disappeared as a central demand replaced by the neo-liberal agenda promoted by the right-wing dominated parliaments and presidencies.

In contrast in Chiapas the organised communities insist on agrarian reform and new democratic rules based on their own army as an integral part of negotiations. Disarmament is not a condition of a negotiated settlement; rather the settlement of basic socio-economic questions is a condition for elections and disarmament. As one peasant leader stated: "We are not going to surrender nor turn over our arms. According to the way the government behaves, we will negotiate or struggle. Here in the community we make our own rules and apply our own laws. Here there are no government regulations."

Self-government by community assemblies is the best antidote to the vertical rulership of the central American commandantes that allowed them to impose their electoral political agenda above that of their peasant supporters. In this sense Chiapas is indeed a new type of politics with a new socio-economic agenda.

Notes

1 For the 'post-modern' claim, with no argument, see Roger Burbach's 'Roots of the Postmodern Rebellion in Chiapas', *New Left Review* 205, May-June 1994.

2 For the Mexican government line see the remarks in Gerardo Galarza, 'En unos dias el EZLN paso de ser ..' *Proceso* 897, January 10, 1994.

3 See Guillermo Correa, Julio Cesar Lopez and Ignacio Ramirez, 'La capacidad de organismos campesinos...' and Antonio Jaquez, 'De Torreon a la selva Chiapaneca', both in *Proceso* 897, January 10, 1994.

4 Interviews took place in Chiapas, July 10-17, 1995.

Beyond the Economics of Supply and Demand

Surinder S Jodhka

A Political Economy of Agricultural Markets in South India: Masters of the Countryside by Barbara Harriss-White; Sage Publications, New Delhi; pp 425, Rs 395 (cloth).

... merchants, like peasants, are an 'awkward class'(p 322).

"ALL economic activity is socially constructed: people are organised for work in specific ways as a result of which that activity carries social meaning. Agricultural markets are no exception. It is by means of the social construction of marketing systems that commodities are physically shifted and transformed and that capital is accumulated, its formation is controlled and labour is exploited" (p 227). These opening lines of chapter seven of the book, in a way, summarise the underlying framework of the study and its scope. It may sound rather obvious to an outsider to say that all economic activity is socially constructed, but professional economists rarely operate in this kind of a framework while thinking about 'economic phenomena' or while conceptualising it. Once it is accepted that economic phenomena are socially constructed realities, economics will perhaps have to be done very differently.

It is in this context that Harriss-White's book is an unusual work. It is unusual for two reasons. First, for its theoretical framework which makes it possible for the author to focus on questions that rarely get raised in mainstream economics, particularly while doing field studies. Second, for the comprehensive account that it provides of agricultural markets in the Coimbatore district of Tamil Nadu. She is able to incorporate several sociological and political questions in her study without ignoring the quantitative side of the picture and the questions that concern 'mainstream' economists.

Interestingly, even though the 'political economy' approach has been quite extensively used in the study or theorisations of agrarian markets in India, much of this work deals primarily with pre-capitalist type of agrarian social structures. For example, formulations such as 'forced commercialisation' or 'inter-linked agrarian markets' have generally been used in the studies of 'backward regions' marked by pre-capitalist/'semi-feudal' relations of production. Agricultural markets of a more integrative nature that link the rural economy with the urban and regional economy have not been studied very extensively in India from the perspective of political economy.

This study is based on an extensive field-work carried out by the author in Avinashi and Palladam taluks of Coimbatore district of Tamil Nadu during the late 1970s and early 1980s. This work is a sequel to an earlier book by the author on *State and Markets* (1984). Her focus is on understanding the shift being experienced in the local power structure and economy of the region as a consequence of increasing involvement of the landed classes in mercantile activity and the possible implications it might have for policy-makers or development agencies. As summarised in the preface of the book, her main argument is "that *the masters of the Coimbatore countryside no longer have their centre of gravity in land.* They are distanced, but not far, from the site of production. They are a mercantile class deriving most of their resources and economic power from marketing....And this is an epicentre of productive capitalism both in agriculture and industry" (emphasis in original). It is important to understand this new 'dominant class' because "(I)n the countryside populated by small peasants, landless agricultural labourers and wage-workers in the non-farm economy, this commercial elite embodies and wields gigantic economic power. More often than not it also holds the local state in its palm. More often than not, it also subordinates women and low caste people. The local conditions under which the marketed surplus is generated, extracted and redistributed would be high on any reform agenda which reflected the development issues central to the lives of the great mass of Indian citizens with few assets and dim prospects of more" (p 16).

Anyone familiar with the Indian agrarian scene would argue that this has not happened everywhere. The rural rich of India have not entered the mercantile activity in such a big way in all regions of the country. There are regions where even if they wish to or try to do so they have to encounter stiff competition from the already established merchant castes. Harriss-White is aware of this fact and she is careful enough to not generalise from her study of a Tamil Nadu district. Partly for this reason too her study assumes added significance. The Coimbatore case is important because it provides us with a possible example of how a region would develop and how the socio-economic and political linkages would work if the rural rich were to be in control of the agricultural markets as well.

The Coimbatore district is distinct for two specific reasons. First, for it being marked by a well developed rural non-farm economy which also means that the agricultural producers can look for their credit needs to different sources. Second, for being a district where, unlike most other regions of the country, the dominant trading caste is also the dominant cultivating caste. As many as 80 per cent of her respondent merchants admitted to owning land.

Harriss-White starts her book with a theoretical discussion on the issues relating to the study of markets. She questions the conventional notion of market that views it as an "atomistic realm of impersonal economic exchange of homogeneous goods carried out by means of voluntary transactions". Situating herself in the tradition of 'old' political economy, she suggests that markets should be looked at as 'social institutions' with a focus on the nature of power relations embedded in its structure.

She also examines the frames of reference used for understanding agrarian markets in India. These include the framework of 'semi-feudal mode of production', where the sharecropping producers are exploited by the class of landlord-cum-moneylenders through forced commercialisation theorised best by Amit Bhaduri, Krishna Bhardwaj's 'model' of differentiated peasant production applicable to agrarian regions of owner occupancy, and the framework of 'interlocked markets' in which "the dominant party links terms of contract in more than one type of market, and thereby enhances their power to appropriate surplus" (p 38). However, her region of study has an empirical context with its own specificities and does not really fit into any of these 'models'.

Empirically, according to Harriss-White, the merchant capital can rarely be found in a pure form. Agricultural markets in particular can be marked by extreme diversity and

complexity. Keeping this in mind she identified her central question as "what is the nature of the market institutions which have corresponded to a relatively advanced capitalist agriculture developed under risky environmental conditions?". And her objective was to explore "the socially embedded nature of market exchange and analyse markets as systems reproducing themselves in society, space and time" (p 51).

Although she has presented her data in tabular form and at places has also used statistical techniques, apparently to communicate with professional economists, the real strength of her field-work lies in the use of an ethnographic approach and the participant observations through which she has been able to gather rich qualitative details on the subject.

The initial chapters of the book provide an account of the prevailing agrarian structure in the region. Capitalist production relations have come to dominate in the Coimbatore countryside Though the agrarian society was differentiated, she found "no evidence of any but occasional cases of credit ties and interlocked money-product markets, between smaller producers and traders". The smaller producers did have compulsions and they often sold their farm surplus to village traders immediately after the harvest at a price lower than what the bigger land-owners could get for their produce by selling in the urban market or by storing it and selling it when the prices went up. Their compulsions, however, were not "the result of debt relations" but were due to factors such as "the inability of smaller producers to hire carts, bear their own transport costs" (p 99).

The labour market was characterised by diversity and segmentation. The textbook principles of supply and demand had little to do with the actual working of the labour market. "A great variety of contractual forms constituted the building blocks of labour relations, and the access to such arrangements was deeply embedded in social institutions of caste, locality, gender and age as well as household wealth." Of particular interest is her discussion of the way caste and gender worked as barriers in the agricultural markets in the Coimbatore district

Despite there being a large volume of literature on caste in sociological writing, we know very little about how caste works in the labour market in the urban centres. Harriss-White provides us with some very interesting observations on the subject. Caste along with gender, according to the author, works as one of the most important shapers of the labour market. Though traditional caste occupations were only tenuously adhered to and there was no tendency to employ members of one's own caste, "yet the relatively limited range of castes employed demonstrates the enduring importance of caste in institutionalising labour arrangements" (p 249). Untouchables were only rarely employed by the merchants who often openly expressed their contempt for them.

Caste and gender also mattered in the making of an agricultural merchant. All the traders she interviewed were men. Being a woman was "an absolute barrier to the ownership of a wholesale trading firm". Similarly, caste too was important. Trading in crops was caste specific but it was not as exclusivist as gender. There were cases where the caste barrier could be broken. The relationship of caste to commerce was also place specific. However, it still worked as an important barrier to entry in the agricultural markets.

The most fascinating part of the book is obviously the discussion on the "economics and politics" of the mercantile class. A detailed study of this class is crucial also for understanding the emerging power structure in the agrarian sector of the region. The power that the mercantile class wielded emanated from its economic strength. According to the author's estimation, those who controlled the marketing of agricultural produce obtained on an average 15 times more income than those who directly controlled agricultural production. Thus, "masters of the countryside were not absentee landlords but the powerful and wealthy agrocommercial elite". Most of them owned land. Owning land gave them a constituency which helped them in lobbying with the state bureaucracy for their interests in the market.

Another source they used for making profits and accumulating surplus was through various kinds of manipulations or what Harriss prefers describing as "economic crimes". These were against the direct producers, consumers, other intermediaries and even the state. She argues that through these manipulations the merchants took away much of the economic surplus.

It is equally interesting to note that these masters of the countryside were still however not the masters of the city. In fact, the top ranking merchants came from non-agricultural backgrounds and showed little interest in land.

Much of the empirical literature on agrarian structure in India has invariably tended to focus almost exclusively on the relations within the sphere of agrarian production or the rural society. By focusing on the interface between the town and the countryside, Harriss-White has in a way opened up a new set of questions that are simultaneously sociological as well as politico-economic.

Developing Knowledge to Combat Transnationals

Swapna Banerjee-Guha

TNCs and India: An Activists' Guide to Research and Campaign on Transnational Corporations by Jed Greer and Kavaljit Singh; Public Interest Research Group, New Delhi, 1996; pp 122, Rs 50 or $ 5.

THE world economic space since the 1980s has been increasingly dominated by large transnational corporations characterised by universal interdependence and internationalisation of production, capital and labour. Armed with the shibboleth of a free market economy, these corporations have brought within their fold any country or for that matter any region they need by using its economic, social, cultural and environmental characteristics as resources. On the one hand, this has increased the gap between the rich and poor countries and, on the other, intensified inequalities among the less developed ones. Many of these countries have been experiencing a gradual lowering of living standards and reduction in their share of world GDP and organised employment [Sweezy et al 1992] together with a gradual erosion of their technological base, resource controlling capacity and economic sovereignty.

Scaling newer heights of expansion, the transnational corporations in the 1990s have amassed enormous fortunes. The largest 100 among them have built up almost 3.2 trillion dollars of assets, one-third of which has been generated outside their home countries [UNCTD 1993]. Simultaneously they have developed a vertically and horizontally integrated system, especially with the help of sophisticated communication technology that has enhanced their power of control. Massive penetration of these corporations in almost all industrial sectors of the developing countries including financing, marketing and distribution activities has thoroughly distorted their ownership pattern. In such a state of aggression, the need to build up knowledge and resources to oppose these corporations both in theory and practice is urgent. *TNCs and India* by Jed Greer and Kavaljit Singh can be best described as the need of the hour from this viewpoint. While books and articles opposing structural adjustment, new economic policy and transnational corporations are being written, very few efforts have gone to assist researchers, activists and workers at grass roots level and enrich their knowledge to systematically fight these powerful corporations. Greer and Singh have accepted this challenge. Their guidebook provides invaluable information on TNCs for researchers, activists or any concerned individual. The book has to be judged from this point of view and is not to be taken as an addition to existing esoteric and non-esoteric contributions on transnational corporations. In a real sense, the book is a guide, an excellent compilation of sources of information on transnational corporations at a global level, giving special reference to India.

The authors begin with a simple, brief but incisive account of the characteristics and operations of the TNCs, especially focusing on their pernicious effect on national and international politics, employment, health and the environment of the host countries. Section 2 narrates, again in brief, the highlights of the growth of TNCs in India and the government policies on foreign investment. The post-1980 era has rightly received special attention being the period when the Indian government received the largest ever loan from the World Bank and IMF initiating the structural adjustment programme (SAP) which culminated in the introduction of the new economic policy. To quote Greer and Singh, "the result of these and other liberalising changes was a near three-fold increase in foreign collaborations and an eleven-fold rise in government approved foreign investment between 1991-1995" (p 17). The section concludes with the highlights of the SAP and other policy measures adopted in the 1990s to serve the interest of TNCs giving interesting informative insets on who approves foreign investment or how major international institutions facilitate foreign investments and entry of TNCs in India.

The post-1980 era has also been the era of increasing awareness of people about the menace of transnational corporations and international capital articulated through campaigns and movements organised against respective TNCs. The sections dealing with case studies on such campaigns against Union Carbide, Cargill, Du Pont, Nestle and Enron are not only informative but also analytical in the sense that they investigate the factors that led to the success of each campaign and also pinpoint the general fall-out of such success. Without underestimating the impact of these successes or lessons drawn therefrom, the response of the TNCs to such campaigns should have also been mentioned. For example, Cargill's statement on withdrawal from Kandla and its subsequent re-entry into other sectors could have formed an inset to explain the global strategies and tactics of TNCs. Mention of various other means of campaigning against TNCs through cultural outlets, posters, pamphlets, etc, adopted by individuals or groups for putting pressure on TNCs is apposite. The list of Activist Resources in India is specially useful.

The invaluable contribution of the authors which makes the book a guidebook in a truly practical sense lies primarily in the subsequent eight sections on various aspects of TNC operations and how to oppose them on various issues. Each section offers exhaustive lists of organisations, individuals and publications along with their addresses that provide the sources of all the necessary information for a specific campaign. Each section also contains important guidelines for specific action/research on TNCs. However, the list of books presented in the section on research seems to be too brief and cursory compared to the exhaustive nature of other materials. In the section on investigation on TNCs the list of documentation sources such as various kinds of corporate directories, company yearbooks, handbooks and newspapers as well as the human sources such as key persons in various professions is especially useful for researchers. The glossary insets (pp 68, 69) and list of NGOs deserve special mention. Compilation of the names of organisations, bodies and contact persons (with their addresses) at cross-country levels pertaining to specific actions, such as actions on labour, legality or environmental considerations, included in the later sections is a commendable feature of the book. The full-page insets (pp 88, 89) suggesting areas of investigation on individual corporate plants would be of special interest not only to a fresh researcher but also to a veteran in case the latter is in need of a checklist. Sources on various industrial sectors deserve special mention as does the section on shareholders' responsibility. The list of organisations engaged in mobilising shareholders' efforts to pressurise the corporate bodies is very apt.

The book will make a very useful guide for any researcher, activist or group venturing to undertake a systematic exposition on TNCs and for those already in the struggle wishing to consolidate their efforts The book deserves commendation not only for the exhaustive lists but also for the systematic plan of investigation that it offers through its contents.

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For Civil Libertarians

A G Noorani

Civil Liberties: Cases and Materials by S H Bailey, D J Harris, B L Jones; Butterworths; £ 27.95.

IN few other walks of life is the saying 'knowledge is power', more valid than in the struggle for the citizens' liberties. This massive work now appears in its fourth edition thanks to the labours of three acknowledged British jurists, S H Bailey, D J Harris and B L Jones. The ambit of the concept of civil liberties itself has widened enormously. Since our courts draw on rulings of English courts and of the European Court of Human Rights this volume is indispensable alike for civil libertarians and lawyers. It has expanded considerably since its first edition came out 15 years ago.

The topics covered are police powers of stop and search of persons; entry search and seizure on premises; arrest and detention; questioning and admissibility of evidence; the law of demonstrations, meetings, assembly and processions and curbing of riots; emergency powers against terrorism; film and theatre censorship; broadcasting and television; obscenity; contempt of court; official secrecy and access to information; the right to privacy; freedom of religion; protection against racial discrimination; immigration law; and a whole chapter containing a good legal commentary on important provisions of the European Convention on Human Rights.

The chapter on northern Ireland, for instance, is directly relevant to the situation in Kashmir and in parts of the north-east. The law in India on sex discrimination and sexual harassment has just begun to grow. We do not have racial discrimination so much as communal discrimination. The *Bombay Times*, a supplement of *The Times of India*, reported on September 13 that in Mumbai "housing societies with predominantly Hindu residents have been refusing entry to members of the Muslim community just because they are Muslims". This report, by two correspondents, Jayeeta Chowdhury and Aboozar Kalimee, cited a wealth of details including the testimony of "an official of a construction house" who spoke of this "trend" becoming "particularly noticeable after the 1992 riots especially in south Mumbai and suburban areas such as Bandra, Khar, Kandivli and Goregaon".

Section 21 of the British Race Relations Act, 1976 reads thus: "(1) It is unlawful for a person, in relation to premises in Great Britain of which he has power to dispose, to discriminate against another – (a) in the terms on which he offers him those premises; or (b) by refusing his application for those premises; or (c) in his treatment of him in relation to any list of persons in need of premises of that description. (2) It is unlawful for a person, in relation to premises managed by him, to discriminate against a person occupying the premises – (a) in the way he affords him access to any benefits or facilities, or by refusing or deliberately omitting to afford him access to them; or (b) by evicting him, or subjecting him to any other detriment. (3) Subsection (1) does not apply to a person who owns an estate or interest in the premises and wholly occupies them unless he uses the services of an estate agent for the purposes of the disposal of the premises, or publishes or causes to be published an advertisement in connection with the disposal."

The volume contains a commentary on this section based on judicial rulings. This is just one instance of the relevance of the work in enforcing the existing law and in highlighting its many inadequacies.

New Economic Policies, Instability and Policy Ineffectiveness

Arun Kumar

A comparison of the trends and the amplitude of fluctuations in several key macro-economic variables in the pre- and post-1991 periods suggests increased economic instability which facilitates speculative activity, especially with financial sector liberalisation and the opening up of the economy.

The author also argues that the increased amplitude of economic fluctuations is a result of the nature of state intervention under the new economic policies which has reduced policy effectiveness. The government is unable to control or regulate the impact of shocks (external or internal) since it lacks the policy instruments or has given up some of them or they are greatly circumscribed by the requirements of the new policies precisely at a time when the economy has become far more complex and is subject to more external shocks.

I
Growth Experience since 1991

THE Indian economy experienced a high rate of growth during the 1980s; its best performance for any decade in the 20th century. With the initiation of the New Economic Policies (NEP) in 1991 there was a slump [Kumar 1993] which was in line with the expectation of most analysts since NEP involving a stabilisation package in the short to medium run are stagflationary. International experience with such policies in the 1970s and the 1980s reinforced this expectation.

The growth rate of the economy picked up rather strongly in early 1994 and reached the level achieved in the 1980s. Hence, it is argued that the NEP have not disrupted the economy (unlike in other countries) and are a success in India. The rate of growth has been positive all along, unlike in the case of many other countries where it turned negative (for instance, the decade of the 1980s is called the lost decade for Africa and much of Latin America). The rate of inflation peaked in August 1991 at 17 per cent and then declined and has been in single digits for the last one year. This is also presented as a success for NEP since in the case of many other countries the rate of inflation went into three and even four digits after similar policies were launched.

It has been argued that a transitional period follows any change in policies so that the launch of the NEP (which also consist of Structural Adjustment Policies) was likely to create an economic dislocation and, therefore, it is no wonder that temporarily the rate of economic growth declined and the rate of inflation shot up. It has been admitted that some sections of the population are bound to be hit harder than others and this is a cost that has to be paid by the nation for a long-run more viable growth strategy.[1]

Initially, it seemed that the economic pick-up after the slump in 1991 was due to the continued good performance in agriculture since 1988. It was argued that since the NEP have mostly left agricultural policy alone, the economic upturn reflected the nation's good luck that it experienced a string of average to good monsoons (and no drought). However, since early 1994, the rate of industrial growth has zoomed up and crossed the 10 per cent mark suggesting a much broader recovery (Graph 2).

Growth and Fluctuations

The question is whether this growth is a part of a trend or just a statistical fluctuation? Data presented in Kumar (1993) suggest that even the 1980s witnessed large fluctuations: There was a strong economic recovery in 1988 after the drought of 1987 but this petered out by 1990. Since 1991 there are too few data points to reliably establish annual trends in most variables so that it is hard to conclude that the economy is on a new growth path. However, there are several variables for which monthly data are available and they may be used to shed light on the issue. This data can be used to compare the trends and the amplitude of fluctuations in these variables in the pre- and post-1991 periods.

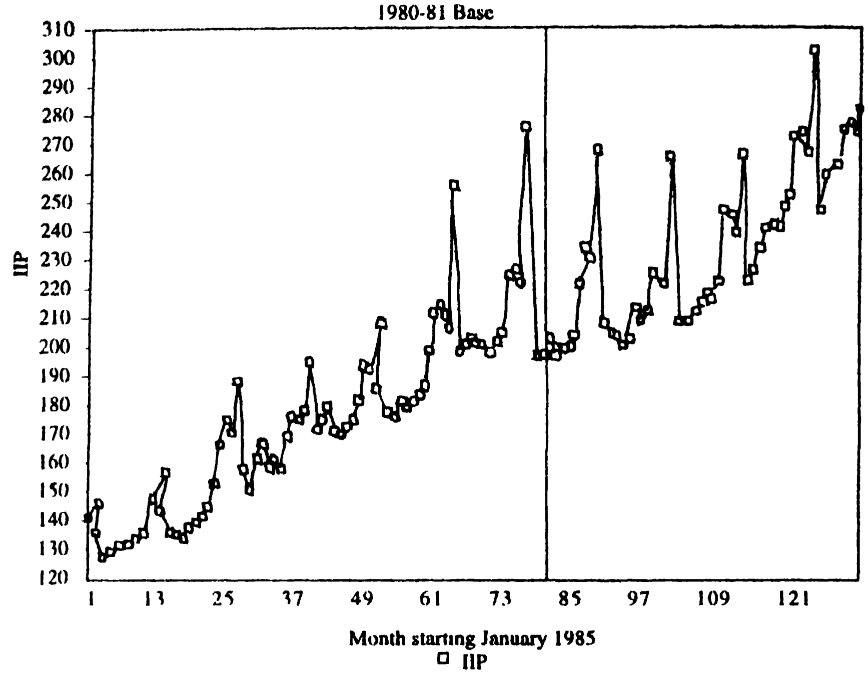
Such an analysis can clarify the nature of the current uptrend. If the amplitude of fluctuations has increased and is growing, then an uptrend may only be a part of a temporary cyclical rise. If the fluctuations are a result of the shock induced by the NEP, then that would not be unusual but a trend cannot also be established easily. Finally, growing fluctuations would indicate an instability which would make it difficult to establish a trend or even a regular cycle.

Does the fact of a shock in 1991 make the data non-comparable with the pre-1991 (from 1985) data on fluctuations? The pre-1991 period was characterised by severe shocks to the economy. The 1987 drought was supposed to be the worst of the century [Kumar 1987] and affected output and prices. The oil price shock consequent to the Gulf crisis in 1990 had serious consequences for inflation and BOP. In addition to these shocks, the political climate became unstable in 1987 with the Bofors controversy. This affected investments, specially from abroad. It may be argued that the consequences of these shocks spilled over into the post-1991 period. However, if the amplitude of fluctuations increases in the latter period after declining, then that can only be a consequence of the NEP. Increased fluctuations in the latter period would make it likely that a strong growth from a low base may not be indicative of a rising trend.

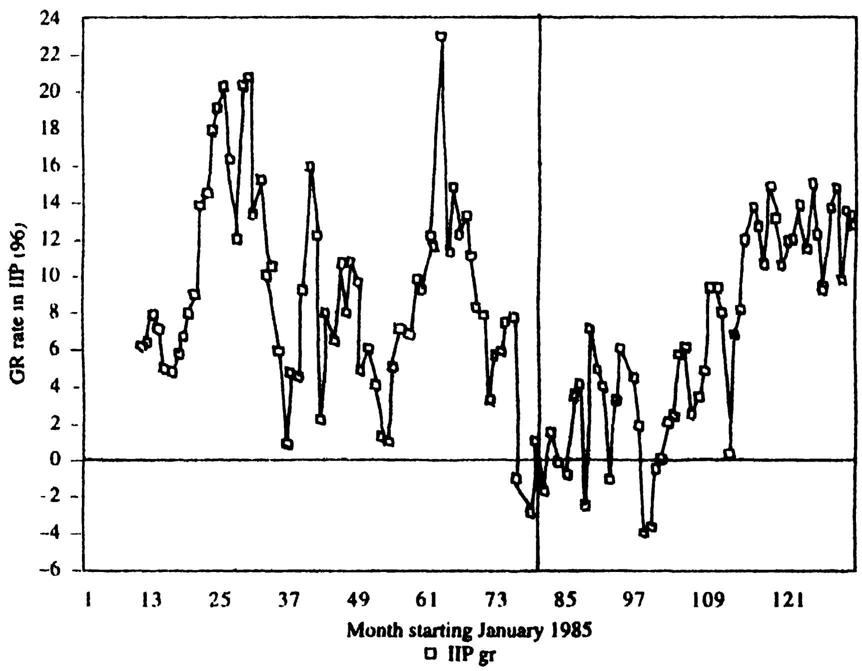
Fluctuations in various macro-variables may be interlinked. They may grow in amplitude and be destabilising or die out and be stabilising. If the interlinkages provide a positive feedback from one variable into another, then destabilisation is likely.

Growing fluctuations in key variables would imply government's lack of will or inability to control them, that is, policy ineffectiveness. Governments discovered in the 1930s that macro-economic fluctuations may be dampened by counter-cyclical intervention. However, Kalecki had warned that business cycles would be replaced by political business cycles to suit the needs of the ruling parties and the interest of capitalists so that fluctuations in economic activity would continue. He suggested that from one depression to the next the role of government would enlarge and the welfare state that would emerge would not be to the liking of capital since that weakens its capacity to extract concessions from the state [Kalecki 1971]. Hence the preference for markets over state.

Graph 1 Index of Industrial Production
1980-81 Base



Graph 2 Growth Rate in IIP



Markets and uncertainty go together. Individual economic agents are atomistic decision-makers, make mistakes and affect other economic agents who act on these mistakes and cumulatively these result in fluctuations. Economic fluctuations[2] occur even in the presence of state intervention but an increase in their amplitude over time can be taken to imply a decline in certain kinds of economic intervention by the state and ineffectiveness of policies and/or increased dependence on market forces.

Can monthly data be used to establish annual trends? Yes, but fitting a trend or a cycle to data is a matter of hypothesis. If there are sharp fluctuations, no one cycle or a unique trend can be easily fitted since the pattern may be rapidly changing. Different trends or cycles of varying frequencies may be fitted to data depending on the starting and end points. Hence reliability of conclusion drawn from such data is low.

The NEP not only lay greater stress on market forces but on opening up of the economy to foreign capital. This imposes constraints on policies since government cannot control the external environment which is governed by international finance capital – a force far more powerful than the Indian state hence able to dictate to it. Since its interest is not just India, but the global markets, it may not be interested in stabilising any fluctuations in the Indian economy even if their amplitude is small by international comparisons. It can and is known to use fluctuations in an economy to extract concessions from national governments. These can further reduce the role of government and accentuate fluctuations.

This is a process of strategic retreat of the state which results in gains to agents in proportion to their strength in the market – which favours the MNCs and local capital. Losers are those who are marginal to the markets and they need state intervention to stay where they are. But since that is in the process of being curtailed, except where market forces need it, it is unavailable or totally inadequate to their needs. Those who are marginal to the markets are then the residual in the system and likely to be adversely affected by growing fluctuations.

II
Overdetermined System and Policy Ineffectiveness

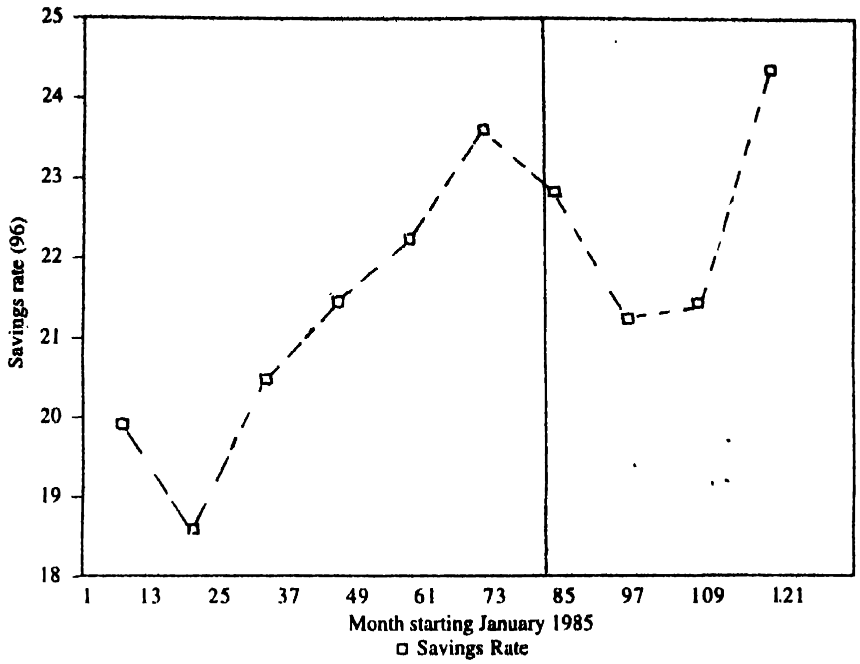
Consider various macro-variables in mutual interaction as given by a system of equations. If there are as many equations as the number of variables, the system is completely determined. The government has no role. If the number of equations is less than the number of variables in the system, then the government can guide the economy by fixing some of the variables such that a desired outcome may be achieved.

Many key macro-variables like taxes are now being fixed so as to encourage private capital since that is the determinant of total investment and not public investment. Concessions to the stock markets, consumption of luxuries and imports are also motivated by the same logic. Hence, the flow of savings and trade deficit are no more under government control.

Further, in an open economy many of the variables like tax revenue, pattern of investments, behaviour of the stock markets, increase in money supply, structure of interest rates and labour policies are strongly influenced by the external environment. The economy and the government can only adjust to these influences and cannot any more use policies to target desired goals like employment generation, control of inflation, low interest rates, low rate of growth in money supply, increase in public investment and control of budgetary deficits.

For instance, it may no more be possible to promote industries with a high employment

Graph 3: Savings Rate



elasticity since attracting foreign capital (with high capital-intensity) to cover the current account deficit may be the first priority. Further, tax concessions to foreign capital become necessary even if that leads to a fall in the tax-GDP ratio and a rise in the revenue deficit which results in cut-back in social sector expenditures and slow-down in growth in public investments, etc [Kumar 1995].

Models consist of variables and parameters of relevance to the problem at hand. Some of these are endogenous and the solution of the system consists of the dependent variables as functions of the independent variables and the parameters. Agencies like the government fix the independent variables or the parameters so as to obtain the desired solution. The NEP have led to many of the variables getting fixed by the external environment and change in the inter-relationships among the variables so that government cannot fix the solution. This is policy ineffectiveness.

In brief, while the economy becomes more complex, fewer variables are available to the government to exercise control. The system may even get overdetermined so that not only are no free variables left to fix but government is forced to give up some other variables. In the circumstances, government may not be able to control the amplitude of fluctuations through counter-cyclical policies. If these fluctuations are initiated from abroad, they may be even more difficult to control within a small national economy (Indian GDP is around 1 per cent of world GDP) and their amplitude may depend on the global scenario.

III
Variables Considered

In this paper, some of the macro-variables for which monthly data are available and which are mutually interlinked are considered. These variables are important since they determine the base for other variables to act.[3] Data are presented for the period 1985 to 1996 with July 1991 as the divide so that comparisons can be made for the two periods.

The NEP are likely to affect output, prices, budgetary variables, trade and exchange rate related variables, savings and investment and money supply. However, agricultural output is still strongly governed by the monsoons and given that the package of policies under NEP for this sector is still rather thin, this variable is not studied here. Further, for this variable monthly data are not relevant, so the number of points available for comparison are few. Even tertiary sector data are not available on a monthly basis and reliable data comes out with a substantial lag. Hence only industrial production (IIP) is considered.

The NEP have a large package for this sector and various other variables affected by NEP impact on this variable – for instance, interest rates, tax policies, trade policies and investments. This variable exhibits a strong seasonal pattern so that its growth rate over the corresponding month of the previous year has been considered.

Industrial growth is linked to total savings (and investment) in the economy. Savings rate is considered here in spite of the data not being available on a monthly basis. Annual data are used. The trends in the primary capital markets and the stock market index are important indicators of private sector investments and are hence presented here. Money raised in the capital market is known to have been diverted to speculation in real estate and foreign exchange markets. Reliable data on real estate are unavailable and are so left out of consideration but the rupee-SDR parity is presented here. The rupee-dollar parity was not considered since RBI has tried to hold it stable for most of the period after 1991.

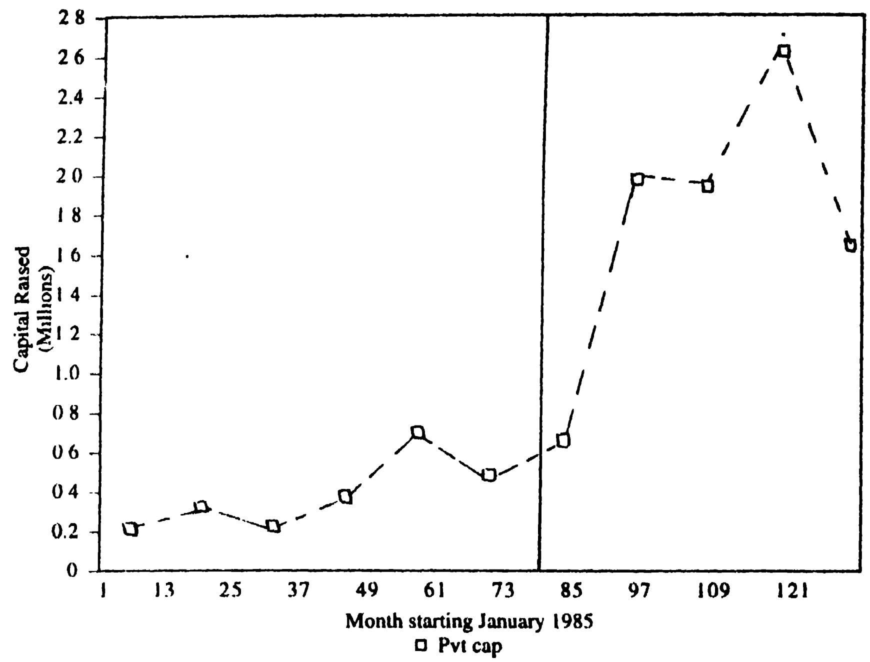
The rupee-SDR parity is linked to the trade deficit and the reserves position; so these variables are also considered. However, data for trade deficit were easily available for the entire period in rupee terms hence this was taken. Monthly data on reserves were available in dollar terms from 1988 and so the earlier data are presented on an annual basis.

The rate of inflation is important in several ways; so the wholesale price index (WPI) is considered here. Fluctuations in this variable are likely to be linked to the rupee-SDR parity and budgetary policies. More importantly, this variable affects the poor through its impact on poverty. Just as for IIP, this variable is also highly seasonal in character and hence the annual growth rate in WPI each month is considered.

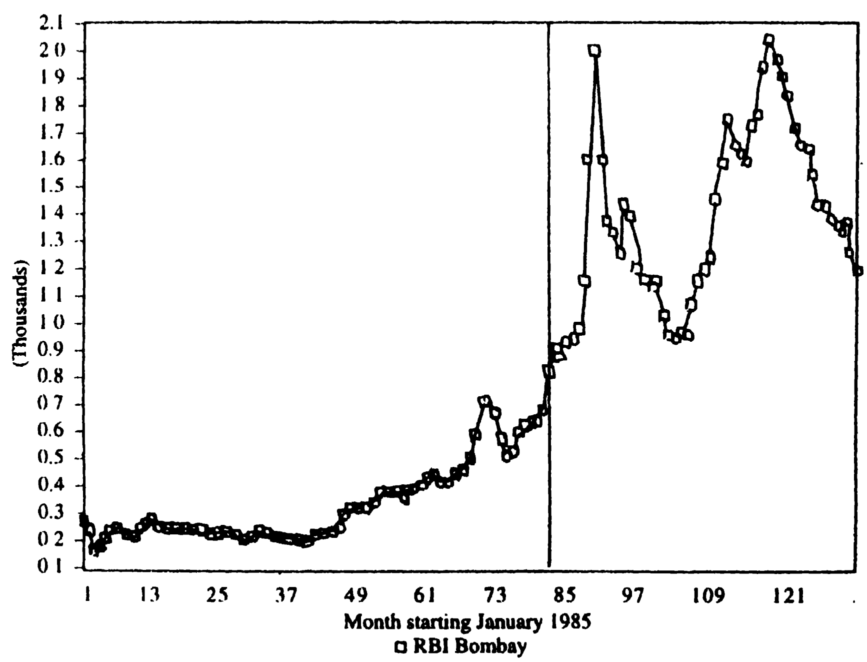
Table: Fluctuations in the Variable Considered
Pre-1991 Compared to Post-1991

	Variable	Average/Trend Rate	Variation	CV
1	IIP	Higher trend	Lower	Lower
2	Growth rate in IIP	Higher average	Higher	Higher
3	Growth rate in WPI	Lower average	Higher	Higher
4	Growth rate in M3	Similar average	Lower	Lower
5	Trade deficit	Similar average	Lower	Lower
6	Rupee SDR parity	Lower trend	Lower	Lower
7	ForEx reserves	Lower average	Lower	Lower
8	Net credit to government	Higher growth	Lower	Lower
9	Bombay share price index	Lower trend	Lower	Lower
10	Call money rates	Lower average	Lower	
11	Savings rate	Higer average		
12	Capital raised by private sector	Lower trend	Lower	
13	Revenue deficit	Lower trend	Lower	
14	GDP/M3	Lower trend	Higher	

Graph 4: Capital Raised by Private Sector



Graph 5: Bombay Share Index, RBI



Budgetary variables are considered through the RBI credit to government. Given the importance of the revenue deficit, data on this variable are given here even though it is available annually. Since these variables are linked to the growth in money supply, growth in M_1 is presented here.

The budgetary deficit has a strong impact on transfers to states, capital expenditures, Plan size and expenditures on social sectors. Since the states are responsible for the bulk of the expenditures on the social sectors, their allocations have stagnated as the state finances face a crisis and even where increases came they lagged behind real needs.

Cuts in capital expenditures and the real size of the Plan have led to non-fulfilment of targets of growth in infrastructure [Kumar 1994]. This not only sets back production and forces price increases but further increases the need for private investment and forces the government to grant concessions which in turn aggravate the budgetary position.

Budgetary stringency also increases pressure for reduction in subsidies on essential goods and increase in administered prices of basic goods produced by the public sector which results in a cascading effect on prices and affects the poor adversely. For instance, there is pressure for truncating the PDS and raising issue prices to bring them closer to market prices which reduces the government's capacity to stabilise foodgrain prices.

Employment generation is likely to have declined under NEP [Kumar 1995] but monthly data are not available and whatever exists is unreliable. The string of good monsoons may have allowed agriculture to absorb the underemployed but it is unlikely that new jobs would have been created on any significant scale. Employment elasticities for the 1990s have been assumed to be much higher than those achieved in the mid-1980s but there appears to be no basis for it [Kumar 1995]. Hence data on employment has not been considered here.

Sources of Data and Method Used

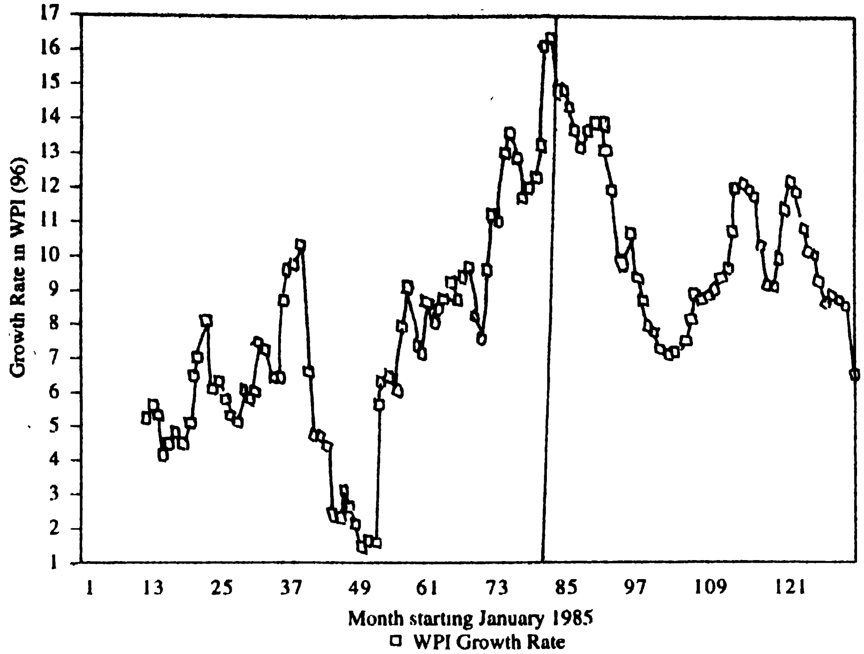
Considering the above arguments, monthly data have been used here for the Index of Industrial Production (IIP), Wholesale Price Index (WPI), M_1 trade deficit, rupee-SDR parity, foreign exchange reserves, net credit to government and Bombay stock exchange share price index. Annual data are also presented for call money rates, savings rate, capital raised by the private sector, income velocity of money and revenue deficit. The sources of data are the various issues of RBI *Report on Currency and Finance*, RBI *Bulletin*, RBI *Annual Report*, and the finance ministry's *Economic Survey*.

Given the complex system that an economy is and the various inter-linkages among the variables considered here (some of these linkages are presented in the previous section) it is difficult to build a macromodel which would do justice to the interlinkages; hence this exercise has not been attempted here.[4] Further, since time paths of the variables are being considered one would have to attempt dynamic interrelationships among them and most of these are likely to be non-linear so that the complexity would be enormous. Building states for purposes of comparative statics or dynamics would be inadequate to the task.

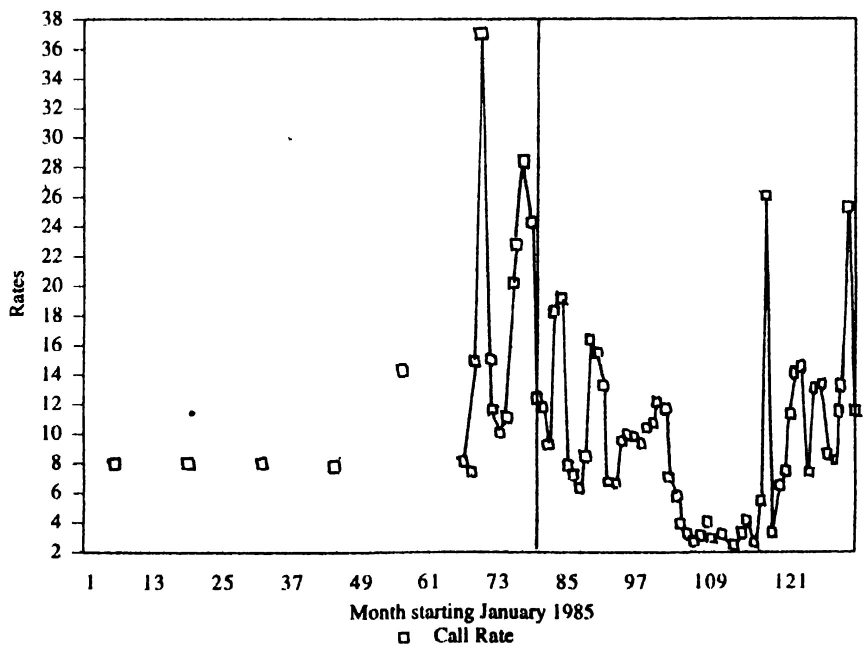
To study the stability property of the overall system, a dynamic system would be needed. But if such a system is built with linearised relationships, it would amount to eliminating the problem by assumption. In other words, the problem cannot be studied by providing a unique analytical solution to a simplified system. For these reasons, the time path of each of the variable is studied individually.

Multiplier accelerator models of business cycles study variables singly and imply that fluctuations can grow in amplitude under certain conditions and this is certainly more

GRAPH 6: GROWTH RATE IN WPI



GRAPH 7: CALL MONEY RATE LAST FORTNIGHT OF MONTH
Average of Middle Rate



likely with a reduced role of the state. In this paper, the possible interrelationships among the variables are spelt out without giving them a functional form. This gives some idea of the nature of feedback from one variable to another, whether positive or negative.

COMPARING FLUCTUATIONS IN THE TWO PERIODS

There are various methods available in economics to measure the extent of fluctuations in a variable. They may be measured around some kind of an average (static or moving) value of the variable. If no trend seems to exist, then a simple arithmetic average may serve the purpose but if a trend can be fitted, then the scatter around it gives an idea of the fluctuations.

Whether a variable is free of trend or not requires specifying a model which would indicate whether a trend should exist or not. Even if a trend is fitted it may be necessary to fit different ones for the pre- and the post-1991 periods given the change in policy regime. Even this should be specified through a model of the likely impact of NEP on the variables. If a cycle is fitted it is difficult to establish a periodicity in a rapidly changing pattern unless there is a theory to specify the parameters.

In the absence of such models specifying the behaviour of either the specific variables or of the system as a whole, no general specification can be valid. As such, in this paper for each of the variables that which minimised the variations (averages/simple trends) seemed most appropriate. These minimum variations in the two periods were compared (see the Table). A visual inspection of the graphs was mostly adequate.

IV
What Do the Data Indicate?

(1) The growth rate in IIP over the corresponding month of the previous year has been graphed (Graph 2) while the data on IIP is in Graph 1. The rate of growth in IIP was higher in the pre-1991 period and so were the fluctuations. After the decline in the growth rate in 1991, the pick-up began in 1993 end. The IIP data indicate that the peaks in IIP in the post-1991 phase were much higher than the average during that year, indicating greater fluctuation in the post-1991 phase.

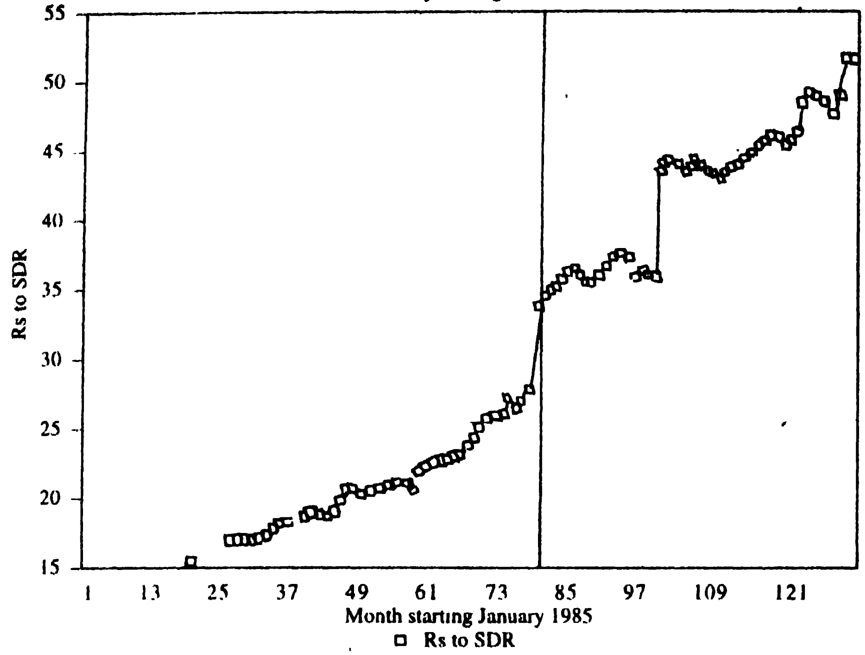
Growth in IIP is dependent on demand factors like injection of demand by government (say, net RBI credit to government, investment rate in the economy (here proxied by the savings rate) and capital raised by the private sector.

The black economy has a strong influence on this variable since a part of the output is evaded, prices under-invoiced, costs inflated and the cost of production of the evaded output loaded on to the declared output. There are reasons to believe that in the recent period, due to the need to boost the price of their shares many companies may have been reporting a part of their formerly undeclared output [Kumar 1996]. This raises the IIP without the actual output increasing at that rate.

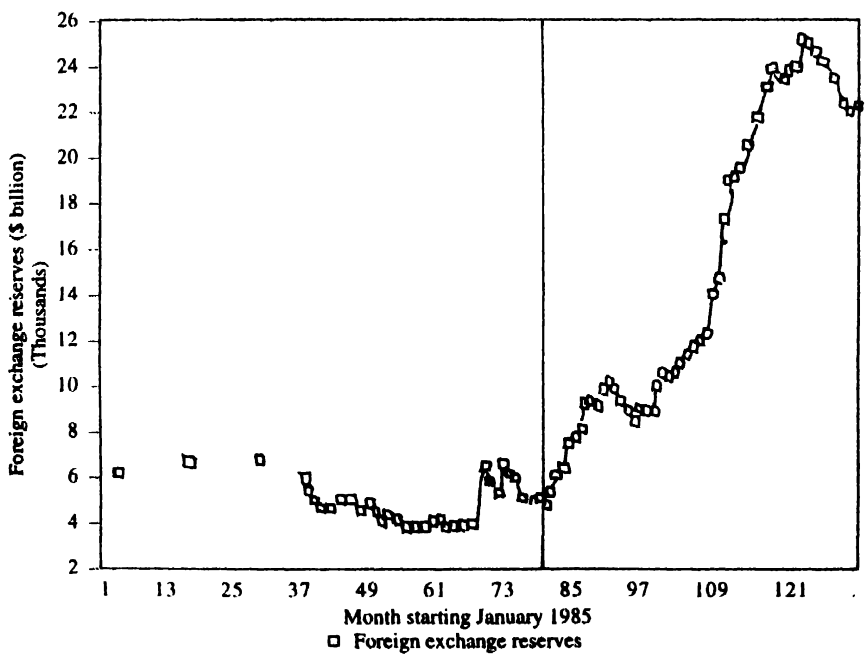
Managements may have been bringing back a part of their funds kept abroad to strengthen themselves. These moves which affect the stock markets and the foreign exchange markets depend on the perceptions of individual managements about the need for funds to counter potential takeover bids, so that they are unlikely to be co-ordinated. This would increase the fluctuations in IIP, stock market prices and the foreign exchange reserves and also raise their average levels.

(2) The savings rate is presented in Graph 3 The savings rate rose steadily till 1991 and then dropped sharply to recover in 1994 Though doubts have been expressed regarding the rise in 1994, if the rate of growth in the economy has picked up as suggested by data, per capita incomes must

Graph 8: Rupee SDR Parity
Monthly Average



Graph 9. Total Foreign Exchange Reserves



have increased sharply and if incomes have got more skewed (which appears likely as indicated in Kumar 1994), the rate of savings should have increased.

Savings rate is a non-linear function of economic activity so that it will fluctuate if incomes fluctuate. Further, any increase in the savings rate based on a more skewed income distribution would narrow the base of growth and aggravate the tendency for the deficiency of demand [Kumar 1995] and if growth slows down, then the rate of savings could again fall. To get on to a higher growth path requires an increase in the export surplus or the primary fiscal deficit in the budget or private investments. As indicated in Graph 10, trade deficit has sharply fluctuated but not declined. The primary fiscal deficit has been declining since 1991 and private sector investments present a mixed bag.

Capital raised by the private sector has increased since 1991 (Graph 4), but that does not mean a corresponding increase in investments since a part of the funds raised are known to have been diverted to speculative activities in the secondary share markets and real estate. Since long-run private investments in an uncertain environment are risky (for instance, the threat of entry of foreign capital or of takeover increases risk) and are unlikely to be buoyant.

The continuing growth in the black economy highlighted by the continuing discovery of major scams suggests that the recorded savings in the economy are likely to be underestimated. Further, as discussed above, if private businesses declare their formerly unrecorded profits, then this would reduce understatement and cause fluctuations in the savings rate.

In brief, none of the growth impulses which can take the economy to a new growth path have been strong or acting steadily so that the savings rate is likely to fluctuate under the influence of other variables.

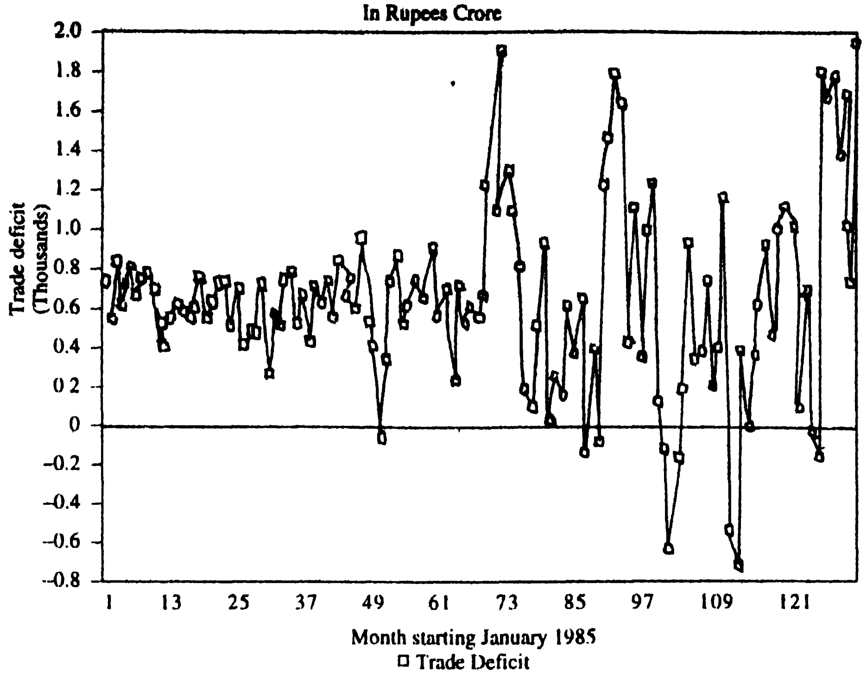
(3) Capital raised by the private sector given in Graph 4 shows a sharp rise after 1991 but also displays wide swings. Graph 5 showing the movements in the Bombay stock exchange share index suggests that the two are not linked. There appears to be no link with IIP either. In 1992 and 1993 when IIP stagnated and industry's profitability declined as compared to 1990, the capital raised increased sharply. In 1995, when both industry's profitability and IIP increased sharply, the amount of capital raised fell.

Capital raised by the private sector does not appear to be crowded out by the public sector. It rose in spite of rising total government borrowings and continuing high fiscal deficit. It has not increased sharply in 1994 and 1995 in spite of lower CRR and SLR and low rates of increase in capital formation in the budget. Even when government borrows, money remains in circulation (M3 has fluctuated sharply, as shown in Graph 12 but its average growth is unchanged as compared to the pre-1991 period) so that funds remain available to the private sector if it mobilises them. The key determinant for raising capital is future profitability and this has been affected by uncertainty due to speculation, hence the stagnation.

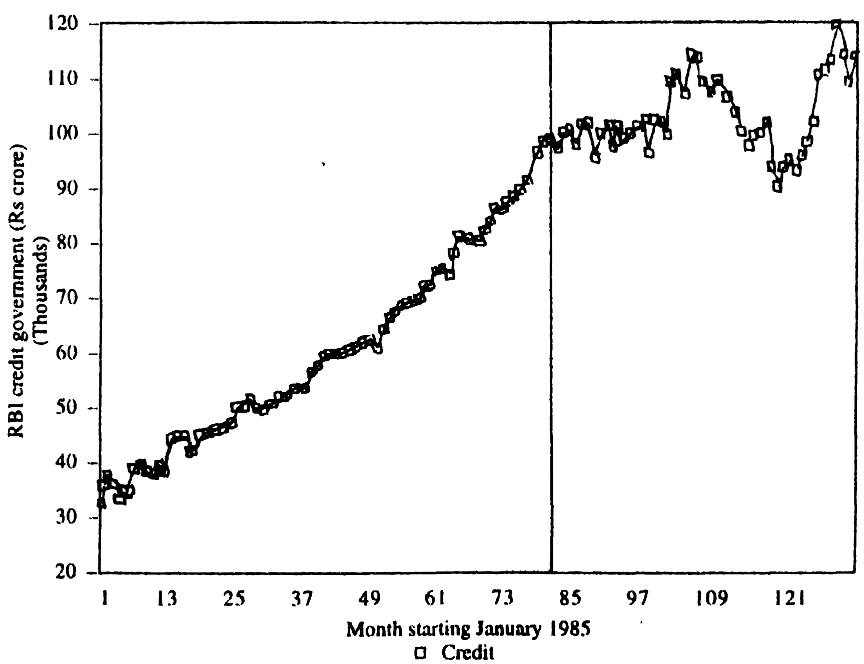
(4) The Bombay stock exchange share price index presented in Graph 5 may be taken to represent the all-India share price movements (since it is the dominant market). It shows a gradual rise with small fluctuations till July 1991 but rose sharply with large fluctuations after 1991. These changes are unrelated to growth in IIP (Graph 2) or profitability in industry (as argued earlier) but seem to be based on expectations about the future.

Shares are one of the relatively more liquid assets, specially the ones in Group A. Hence it is easy to speculate on their price fluctuations. Funds can easily flow into or out of the share market and accentuate the

Graph 10: Trade Deficit
In Rupees Crore



Graph 11· Net RBI Credit to Government



fluctuations here and in those markets which are also relatively liquid, like the call money market and the foreign exchange markets. This affects the velocity of circulation of money, the rate of return flow of funds into banks and the rate of growth of M_1.

The 'freeing' of the financial sector has had an impact on the stock exchange. With reduced regulation of the financial sector, diversion of funds is easier and that has accentuated the instability (emanating from opening up the economy) in the various financial markets.[5]

(5) Graph 6 presents data on inflation based on the annualised increase in WPI. It bottomed in 1988 and then rose to the peak in August 1991. The curve bottomed out in 1993 and again declined in 1995. The average for the post-1991 period is higher than that in the earlier period. However, the amplitude of fluctuations is higher in the pre-July 1991 phase.[6]

The impact of the various shocks are clearly visible in the graph. The drought of 1987 led to a rise in the rate of inflation and the recovery in agriculture in 1988 caused the dip in inflation. The oil price shock of 1990-91 sent prices shooting up and this merged into the shock created by the NEP which consist of various cost push elements [Kumar 1994] like the devaluation of the rupee (Graph 8), cut in subsidy and increases in administered prices (to control the revenue deficit).

It needs to be remembered that these fluctuations occurred in spite of the string of good harvests since 1988 and the build-up of stocks of foodgrains, etc. As argued in Kumar (1994), the policy tools were either not used or were ineffective due to the constraints imposed on the government by the NEP. Hence in spite of the stabilising influence of good-to-average monsoons, the rate of inflation not only remained high but fluctuated, indicating instability.

The monetarist explanation of inflation based on growth in M_1 (Graph 12) or net RBI credit to government (Graph 11) is not in evidence. Fluctuations in these variables has increased substantially in the post-1991 phase while the rate of inflation has fluctuated less due to the stabilising influence of monsoons. To the extent the increased fluctuations in these variables may have had an effect, this is also due to NEP. In brief, the NEP are responsible for the continuing large fluctuations in the level of inflation in spite of the good/average monsoons since 1988.

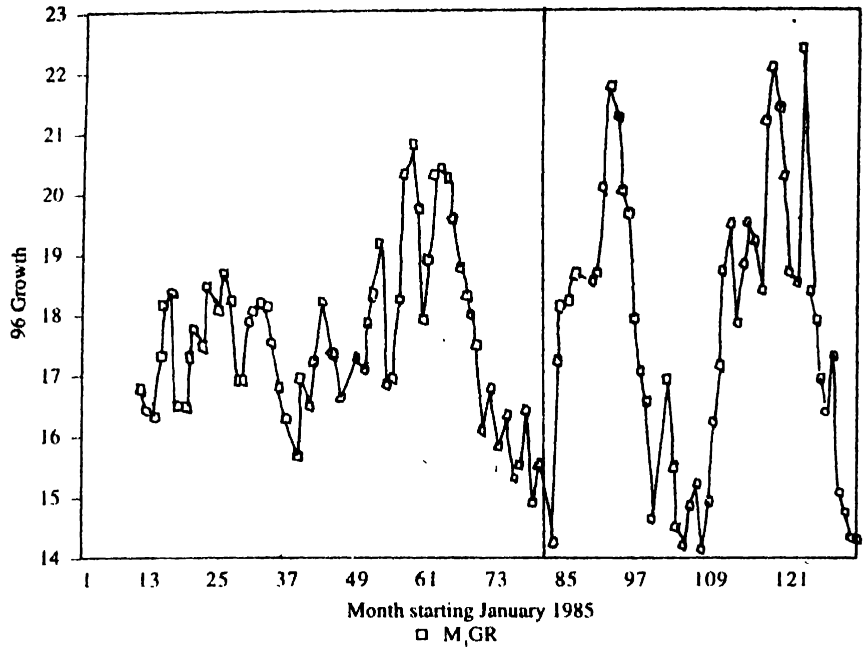
(6) Data on call money rates in Graph 7 are a mixed bag since comparable data are not available for the pre-1991 phase. What is clear is that there have been large fluctuations since 1991. This itself is an incomplete picture since these rates fluctuate on a daily basis and these get masked by monthly data. Recently daily rates are known to have crossed 100 per cent which had not happened earlier.

If only annual averages are used for comparison, then the amplitude of fluctuations is larger after 1991. The rate hovered around 10 per cent between 1985 and 1988 rose to 16 per cent in 1989 and 1990, then fell to 5 per cent in 1993 and rose sharply to 27 per cent in 1994 and fell again to 13 per cent.

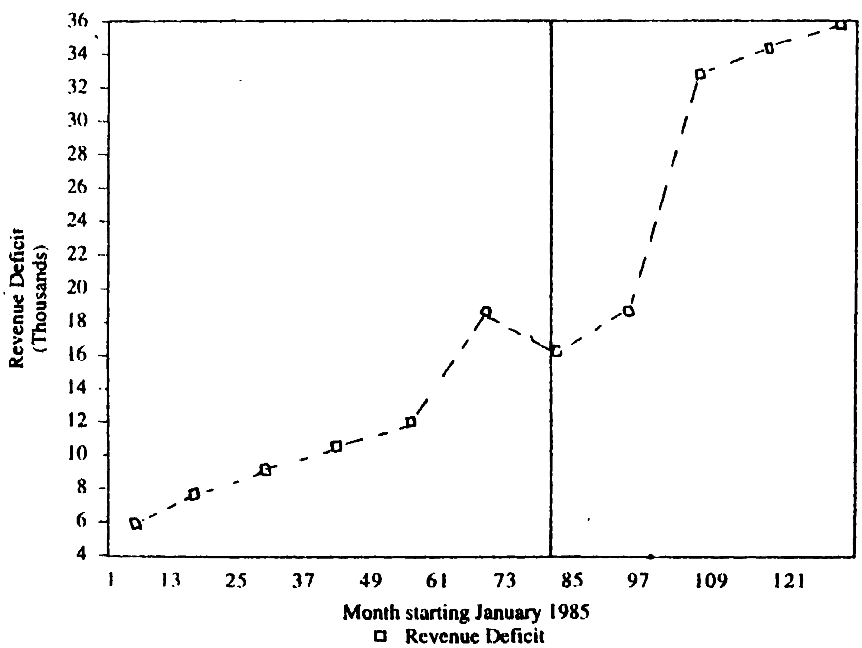
The fluctuations in this variable are likely to be related to the revenue deficit and fluctuations in RBI credit to government, M_1 and demand for funds by businesses. Speculative activity in the stock market, real estate markets and foreign exchange markets also affect it.

(7) Graph 8 shows the rupee-SDR parity. The rupee has slipped constantly since 1986. It fell by an annual average of 16 per cent up to July 1991 and then by 21 per cent. In the latter period, there have been discrete jumps as well as steady changes between the jumps thus showing sharper fluctuations around the trend.

GRAPH 12: GROWTH IN M_1



GRAPH 13 REVENUE DEFICIT OF C GOVERNMENT
In Rupees Crore



Pressures for devaluation have been exerted by exporters and international capital. Pressures for changes in the value of the rupee are also linked to movements in foreign exchange reserves, current account deficit and capital inflows – factors relating to the opening up of the economy.

Movements in the value of the currency in an open economy also depend on expectations. If a devaluation or a revaluation is widely expected, then trade flows and capital flows can force it to happen through speculation and that is why the fluctuations grow. This seems to have happened in the post-1991 period. RBI and the government cannot match the finances of international capital. The only solution is restrictions but that is ruled out by the opening up. Finally, foreign exchange is a liquid asset (more so with convertibility) so that movements in its price lend themselves to speculation which increases fluctuations in its price.

(8) Data on foreign exchange reserves (in \$) are presented in Graph 9. They were more or less steady till 1988 and then declined till 1990. After that they have risen but with fluctuations. The rise in reserves in 1990 and 1991 are based on IMF borrowing. As argued in Kumar (1994), they have risen sharply due to an increase in the country's liabilities and not because the current account is in surplus (as in the pre-1991 phase). Some of these liabilities like, FII inflows and NRI deposits are of the hot money variety which can fly out of the economy at short notice. Hence even the current 'large' reserves cannot give adequate stability to BOP if there is another decline in confidence in the economy, as in 1990-91.

The increase in reserves is given by net capital inflow less current account deficit. Hence, it depends on tax concessions and interest rate differential with LIBOR which determine capital inflows and on policies to reduce the trade deficit like tax concessions.

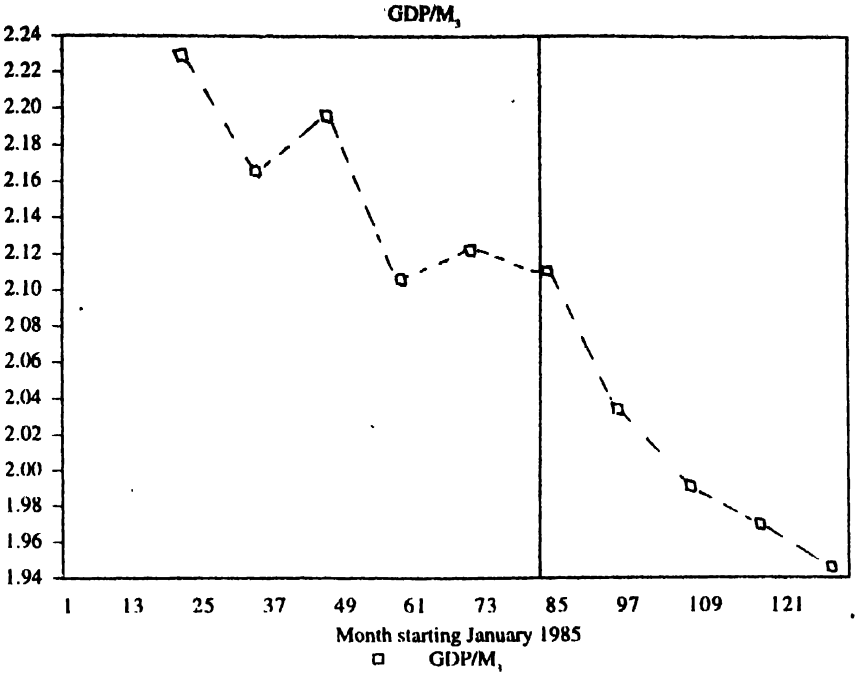
In an open economy, leakage of demand from the national economy tends to raise imports faster than exports so that the trade deficit tends to increase. This can be sustained only if there are net capital inflows. This requirement enables foreign capital to extract concessions which tends to lower the tax/GDP ratio and increase the revenue deficit. Further, to prevent speculation in the value of the currency, there is a need to hold large reserves which leads to a rise in high powered money and M_1.

(9) Movements in trade deficit are presented in Graph 10. It shows that fluctuations have grown after mid-1990. The impact of the oil price shock in 1990 is visible. There is attenuation in 1991 but thereafter the fluctuations grow, indicating the impact of NEP. The data are in rupee terms but since it is constantly devaluing, the increase in amplitude of the fluctuations will be smaller in SDR terms. However, the impact on the national economy is better reflected by the deficit in rupee terms.

The trade deficit is the difference between imports and exports and each of them depends on many variables. For instance, the level of inflation, industrial growth which determines demand for imports and the value of currency which determines exports and demand for imports. Since fluctuations in each of these variables has increased, it is no wonder that the trade deficit also fluctuates more in the post-1991 phase.

(10) Net RBI credit to government (Graph 11) rose without much fluctuation till July 1991. After that the trend rate of growth has declined sharply but fluctuations have grown. Under pressure from the IMF, the government was forced to reduce its borrowing from RBI; quarterly and annual targets of budget deficit were set. Since there were no monthly targets, borrowing from

Graph 14: Income Velocity Ratio
GDP/M_3



RBI could rise in between leading to fluctuations.

With growing revenue deficits and lower borrowing allowed from the RBI, the government has had to depend on the markets and offer market rate of interest to get funds (the same for the PSUs). This leads to tight money supply and increased demand so that interest rates rise which causes the interest burden to rise and increases the revenue deficit. To keep the interest burden from rising rapidly, the government has borrowed from the RBI. These are the contrary pulls leading to growing fluctuations.

(11) Growth rate in M_3 is presented in Graph 12. It shows a high average rate through the entire period (compared to the nominal GDP). Fluctuations increase from 1989, but quite dramatically after 1991. They seem to dampen in 1990-91 but under the influence of the NEP their amplitude increases.

The important sources of growth in reserve money which leads to growth in M_3 are foreign exchange reserves and net credit to government. Since both of them are unrelated and have fluctuated more in the post-1991 phase, it is no surprise that so has the M_3 growth rate.

(12) The revenue deficit of the central government is presented in Graph 13. It shows a rising trend right through the period. It fell a little in 1991 and rose sharply in 1993. Since the data are available on an annual basis, conclusions regarding trends and fluctuations cannot be drawn. Its increase in the post-1991 phase is due to the sharper fall in the tax-GDP ratio as compared to the revenue expenditure-GDP ratio. This is a result of large tax concessions to capital and specially to foreign capital [Kumar 1995] and the rising interest burden.

The significance of this variable lies in its impact on other variables like RBI credit to government and M_3. However, its main impact is to limit the growth in (a) transfers to the states, (b) expenditures on social sectors, (c) Plan allocations, and (d) capital expenditures. This reduces government's capacity to intervene and the effectiveness of its policy.

(13) Income velocity of money (GDP/M3) is presented in Graph 14. Only annual data are available, so too much cannot be read into it. It declines through both the periods but more sharply after 1991. It shows greater fluctuation in the pre-1991 period.

The fall in the income velocity can be due to increasing monetisation of the economy, rising volume of transactions per unit of activity, growing speculation requiring economic agents to be more liquid (and causing transactions to rise) and the growing black economy siphoning away liquidity. Post-1991, all these factors have perhaps contributed due to the growing marketisation and reduced regulation of the economy.

Fluctuations and Uncertainty

With growing instability due to fluctuations, economic agents face growing uncertainty. While this makes them cautious about long-run commitments, they see an opportunity for making money on fluctuations in the short-run. Both these motives require agents to be more liquid. In their portfolios they try not to add illiquid assets like, say, industrial investments. Fluctuations create opportunity for making capital gains on those assets which are more liquid like shares in the secondary market, foreign currency or lending money in the short-term call money markets. Since the fluctuations are unco-ordinated, funds shift from asset to asset so that there can be a positive feedback from one market to another and increase in fluctuations in each of them.

Fluctuations are always present in any economy but in an open economy they may be additionally triggered off by outside events. For instance, FIIs may decide to invest in the secondary stock markets which raises the share price index while simultaneously increasing foreign exchange reserves which triggers a rise in the value of the rupee and money supply and a fall in the call money rates. The RBI has to intervene to hold the rupee stable or imports have to grow.

Government not wanting to discourage the inflow of FII funds cannot intervene counter-cyclically or has done so at the margin. Realising the unstable character of these inflows [Kumar 1994] and worried about the liquidity mismatch between inflows and outflows it did not allow imports to grow fast and let the foreign exchange reserves build up so that money supply grew rapidly. NRIs and Indian businessmen also brought in their funds to take advantage of the high interest rates offered to them and this accentuated the above trend. With a decline in FII inflows, the reverse trend set in.

Speculative activity feeds black income generation, raises the transactions velocity of money, slows down the flow of funds into banks and lowers the income velocity of money. Speculative activity creates transfers but does not generate factor incomes so that the income generation slows down for a given circulation of money. Banks have been complaining that deposit growth has slowed down which is a likely consequence of diversion of funds to holding money or other liquid assets.

In brief, growing instability due to increasing fluctuations causes uncertainty to grow and can create economic slow-down and decline in income velocity of money.

V
The Poor: The Residual of the Fluctuations

By definition the poor are the residual in the market process since they lack purchasing power/financial muscle. Under the NEP which promote markets and force the state to retreat, they get even more marginalised

[Kumar 1994]. For instance, availability of bank credit based on profitability tends to exclude the poor who lack assets for collateral and because they borrow small sums which have high overhead costs. Those with purchasing power can even get financing (and credit cards) for their consumption.

The middle classes with smaller financial capabilities lost money in the financial scam of 1992. Speculation is largely the preserve of the propertied and they are its beneficiaries (even if at the expense of another set of the propertied) but to the extent it leads to uncertainty and price rise or slow-down in productive activity, it hits the poor.

To the extent the budget deficit rises and lowers the rate of growth of expenditures on the social sectors and transfers to the states, it affects the capacity of the poor to overcome poverty. The states are the direct actors in alleviating poverty and with their budgets in crisis, such schemes get adversely affected.

With reduced regulation leading to an increase in the number and the size of the scams the effectiveness of existing schemes decreases. The 'gwala' and the medical equipment scams recently unearthed indicate the growing ineffectiveness of the social sector expenditures. With the legitimisation of money-making in various forms (through productive or unproductive activities) and growing income disparities, illegalities of various description are growing. In turn, this undermines policy so that the much talked of 'safety nets' for the poor cannot be implemented effectively. In any case, they can only be palliative since they only attempt to mitigate that which is being generated by NEP – they do not strike at the root of the problem of poverty but only help mask it.

In brief, in various ways, fluctuations in key macro-variables result in an increased burden on the poor since they are the residual.

VI
Conclusions

There are indications that in 1996 the economic growth rate may be on the decline. The growth rate in the IIP has fallen sharply. According to the data for 1995-96, available in the RBI *Annual Report 1995-96*, the quarterly rates of growth in IIP are 14.3, 11.6, 10.8 and 12.0. For April to July 1996-97, data from the ministry of industry show that the quarterly rate of growth may have come down to 5.8 per cent for July 1996 to 5.2 per cent. Apart from the reason that increased demand in the recent period has had a narrow base and for cyclical reasons (which are not expected to continue), infrastructural bottlenecks are likely to have slowed growth [Kumar 1995]. During April to July 1996, this segment has grown at 3.6 per cent as compared to 12.4 per cent for the corresponding period last year.

Other features of the economy which support the hypothesis of a slow-down in the rate of industrial growth are the sharp reduction in the rate of growth of imports and excise duty collections. First reports are that the corporate sector is experiencing much lower growth in sales and inventory pile up in the first half of 1996. Data on savings are available only for household savings in financial assets (net). After rising in 1994-95 to 11.3 per cent GDP (from 10.4 per cent in 1993-94) they have fallen to 9.1 per cent in 1995-96. With the capital markets in doldrums, less capital is being raised by the private sector and reports suggest postponement of investment plans. All this indicates a possible decline in the rate of investments in the economy and a slow-down of the economy.

In other words, fluctuations in key macro-economic variables are continuing to feed into each other and the sharp upturn since 1994 seems to be giving way to a downturn in 1996. The available official data cannot, then, be taken to indicate that the economy has moved to a higher growth path. It reveals that post-1991 there are greater fluctuations in a large number of key macro-economic variables in spite of the stabilising influence of eight good/average monsoons.

All this suggests increased economic instability which facilitates speculative activity specially with financial sector liberalisation and opening up of the economy. Such trends have engendered greater economic uncertainty which is not conducive to long-run growth and forces economic agents to remain more liquid.

This paper also suggests that the increased amplitude of fluctuations in key macro-economic variables is a result of the nature of state intervention under NEP which has reduced policy effectiveness. The government is unable to control or regulate the impact of shocks (external or internal) since it lacks the policy instruments or has given up some of them or they are greatly circumscribed by the requirements of NEP precisely at a time when the economy has become far more complex and is subject to more of external shocks. Hence, policy ineffectiveness is not only policy failure but also lack of policy instruments.

Notes

1 Most analysts agree that the growth of the 1980s was unviable and was leading the nation to a crisis. However, there is disagreement on the reasons for the crisis and the solutions proposed, Kumar (1994).

2 Many of the cycle models suggest that the stability of the fluctuations depends on the size of the multiplier (i e, the magnitude of the marginal savings propensity) and the accelerator (which provides the feed-back and is given by the incremental capital output ratio). Most capitalist economies, without the stabilising influence of the state, would be unstable. For instance, India with an incremental capital-output ratio of around five would be in the orbit instability.

3 They are either the independent variables which other variables depend on or the ones that are the parameters for the model or are in the background and supposedly remaining unchanged.

4 It is not that models which interlink hundreds of variables are not available in the literature but these are based on drastic simplification which itself does violence to the relationships. Such models can only claim to represent reality but that is feasible if they exhibit stability. But that is taken to mean that the actual system being studied is stable while that may not be the case.

5 The financial sector scam of 1991-92 illustrates this point. A boom was created in the stock market through diversion of funds from financial institutions and fictitious means of creating money through banks

6 The latest data in the RBI *Annual Report 1995-96* shows (p 38) that even though in 1995-96 the average rate of inflation declined as compared to 1993-95, the variability increased considerably

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Gender and Development in India, 1970s-1990s

Some Reflections on the Constitutive Role of Contexts

Mary E John

The ideologies of globalisation and structural adjustment seek to make one deaf to the immediate past and to anything that does not speak in the language of efficiency. However, the contemporary changes overtaking us, disturbing as they are, also harbour the possibility of bringing our political and intellectual engagements on to new and fruitful terrain. For those who have been working at the interface of gender and development, it is time to refigure their priorities, not by secluding themselves within some putative 'pure' economy, but by broadening feminist conceptions of the economy itself. Rescuing the notion of gender from its ritualistic incantations and making it really work for a more emancipatory and inclusive social order is one of the ways open to them, one they have every reason to take.

I

IT is surely a truism today that women's issues no longer belong exclusively to the women's movement, if they ever did. This situation is especially visible in the world of development, and finds its clearest expression in proliferating references to 'gender': in local, national and international fora, among state functionaries, development experts, academics and activists – many of whom would not think of themselves as feminists – one hears repeatedly of gender bias, gender sensitisation, gender planning and gender training, to mention just some of the more common examples of its contemporary use.

As is well known, the whole purpose behind supplanting the older frame of 'women in development' by that of 'gender and development' since the late 1980s in many parts of the world had to do with fundamental shortcomings in 'WID' thinking. To begin with, there was the limited nature of speaking only about 'women' rather than about systemic relations of inequality, involving the relations between *both* men and women. Secondly, attitudes toward development itself tended to remain insufficiently critical, when the entire process, and especially the assumptions underlying development as such, needed to be questioned if gender issues were to be effectively tackled.

Has the change in terminology, important as it is, produced the intended results? I am not sure, and this paper is an attempt to find out why. With over two decades of development work behind us, first in the name of women and now in the language of gender, the time has clearly come to take stock. Unlike some of the other reviews now coming out [e g, Young 1993, Moser 1993, Kabeer 1995, Escobar 1995], which are produced in the first world and pose their analyses at a general level, I argue that we need to explicitly *situate* our critical reflections within the histories of specific third world nations – through their processes of evolution, and in terms of historical shifts in the frameworks within which development is being understood. My own efforts here are tentative and preparatory, somewhat in the nature of drafting the outlines of an agenda and thus making a case for new feminist research.

It hardly bears emphasising that the 1990s have brought the women's movement in India on to new and unfamiliar terrain. Even as we reorient ourselves to the challenges, predicaments – and promises – of the present, feminists are disoriented. A significant response to this situation has been to look back, especially to the last two decades, in order to assess the future.

While I also feel propelled to re-examine the debates and issues of the last 20 years and their connection with questions of development, the crucial motivation for me comes from the experiences and questions of a new generation of women who are in the process of becoming feminist in a world decisively different from the frameworks of the 1970s, which had made post-independence feminism possible. How are women's issues inherited, fought for, carried forward?

In her study of western feminist history from the Middle Ages to 1870, entitled *The Creation of Feminist Consciousness*, Gerda Lerner repeatedly underscores the absence of progression in women's intellectual formation throughout this period: no generation, it appears, was able to build upon the achievements of a previous one [Lerner 1993]. I am less concerned with the plausibility of this historical claim than with Lerner's unspoken assumption about the subsequent history of feminism, which acts as a foil: she seems to be implying that after 1870, with the onset of collectively organised forms of struggle and greater economic independence for certain women, the modes of creating, sustaining and building feminism have been more straightforward.

No doubt, the number of those who have heard of feminism and of women's issues is steadily growing; there is little danger, moreover, of being lost to posterity. But I am not certain that we have a good sense of how feminism is historically 'passed on', and not simply because we in India suffer the specific disadvantages of a third world nation. The problem may be a new one, having everything to do with the transformed *contexts* of the 1990s. We are perhaps more accustomed to think of a context as the 'background' to our questions and demands, rather than as the *condition of possibility* of our initiatives, that is to say, as something *constitutive*. However, the kinds of changes taking place today – of which globalisation is the most visible indication – demand a rethinking of the very terms in which women's issues were initially raised and the modes in which they are being reconstituted today

By drawing attention to the question of contexts, this paper seeks to reframe issues that may otherwise be posed in a misleading way. For instance, these days we often hear of the 'co-option' of the women's movement by other forces such as the Hindu rightwing, the state or certain NGOs. This gives one the impression that the womens' movement had a 'pure' beginning of its own, which only subsequently, that is to say, at some later stage, came to be taken over by different, contrary influences. Instead, I will be suggesting in the following pages that the 'beginning' itself cannot be so easily isolated – indeed, multiple players have been involved, nationally and internationally, from the moment of its emergence. What has changed rather – and changed decisively for everyone concerned – is the context, mediated by 'frames' of intelligibility and signification which are themselves the product of a new historical moment, frames effected by 'critical events'[1] that radically transform the political culture within which we live. It is this sense of radical transformation that also affects our relation to history, making it less clear as to how the past is to be a basis for the future. Hence my problematisation of the

question of inheriting feminism today.

Before turning to the beginnings of the women's movement and its connections to development, it is crucial to notice that globalisation, liberalisation and the programme of structural adjustment are by no means the sole forces redirecting contemporary agendas. Rather, a multiplicity of emergent phenomena and realignments characterise the present: nationally, the events of 'Mandal' and 'Ayodhya' have become, in very different ways, part of cultural and political life, and cannot be dismissed as violent, pathological eruptions of little significance to development issues. Equally pertinent, the status of regions is also open to new forms of politicisation. Apparently sutured within a newly-independent India through the creation of linguistic states, regions can no longer be so obviously subsumed within a national frame. Changes such as these make the task of exploring the past from the perspectives of the present a particularly challenging one, since a number of avenues are now available for the process of reconstruction. The contemporary context is, therefore, by no means a deterministic one; it functions more in the nature of setting limits and opening up new possibilities. Thus, for instance, many regional histories of the women's movement would simply not fit the national narrative, either in terms of periodisation or in the light of the variable significance of development issues in different parts of the country. (This does not mean, of course, that regional narratives of development and the women's movement lie outside the 'national' one, or can only be constructed as exceptions. Consider the 'Kerala model' for instance, which in its own time has borne complex relations to gender issues at a number of levels – within Kerala itself, at the national level and, certainly internationally as well.)

In the face of such options, this paper sets itself the extremely delimited task of concentrating on just one strand of the mainstream feminist literature, in order to illuminate changes in development thinking from a national perspective. While Section II looks at historical issues, Section III is more speculative in nature, and raises questions for the immediate future.

II

In the influential and important World Bank report *Gender and Poverty in India* of 1991, principal author Lynn Bennett announces:

> ...now, researchers, womens' activists, and government departments are reaching a new consensus. ...[W]omen must be seen as economic actors – actors with a particularly important role to play in efforts to reduce poverty. [World Bank 1991: iii]

How are we to evaluate such a claim to consensus? What has enabled the spokesperson of an international agency to endorse her own views by clubbing them together with those of feminists in India and representatives of the Indian state, standpoints which have often been perceived as divergent, if not antagonistic?

There is no simple answer to this question. In this section, I make an attempt to lay the ground for an answer through a comparative assessment of two crucial time periods, namely, the decades of the 1970s and 80s (when the debates on women and development first took shape) and the present conjunctures of the 1990s. Claims to consensus, I shall argue, have only become possible because the meanings attached to a range of terms – such as nation, sovereignty, economy, and, above all, development – have changed considerably from one context to the next, and these shifts have in turn affected the way we need to approach discussions about gender and feminism today. My method of exposition here is a textual one: I will try to highlight the transformed context within which contemporary gender issues are situated by focusing on certain key documents that have played a decisive role in framing these issues over the last two decades, of which the Draft *Country Paper* produced for Beijing last year is the most recent, while the early *Towards Equality* report was the most ground-breaking.

Ingrained habits of looking at the past tempt us to think in terms of a single story or a uniform, continuous process. This is true even of the relatively recent past, such as the experience of the last two decades. Thus, for instance, the Draft *Country Paper* produced and circulated by the Department of Women and Child Development in 1994 (in preparation for the 4th World Conference on Women that was held in Beijing in 1995) tries to tell a story of progress, progress in spite of all the hurdles: There is now an increased sensitisation to gender compared with the early "introspections on women's status in the seventies"; it has been a "bumpy ride", we are told, from "women's problems" to "women's perspectives" [Department of Women and Child Development 1994]. Many feminists, on the other hand, assess the situation differently: pointing to signs of growing violence against women, the falling sex ratio, the effects of environmental degradation or the negative impact of structural adjustment, they tend to tell a story of decline.

Such attempts at constructing a history of women in development (whether positive or negative) assert both too much and too little. Too much, because we are not yet in a position to produce such overarching narratives – gender issues, the pace of a movement, and the modes of theorisation available are simply too complex and contradictory, still too poorly understood, to be couched in unilinear terms of either progress or decline. Too little, because what tends to remain hidden from view in such constructions is the fact that we do not have *unmediated* access to the lives of women. Women's issues are rarely allowed to be – and seldom are – women's issues alone. They are invariably tied, both explicitly and (more often) implicitly, to *other* issues – this is precisely how contexts work. Much more effort is required, as I have already tried to indicate, to highlight the constitutive effects of the changing frames in which gender has been and is being foregrounded.

Though there is a significant history of debates and policy initiatives around women and development during the last decades, it would be quite misleading to believe that women's issues have gained an autonomous space and are now ready to be analysed on their own terms. But it is precisely such an impression that is conveyed by the *Country Paper*, especially in its concluding chapter on women and violence. Though this chapter is quite radical in its account of the violence of marriage for young women barely out of their teens, and the real hazards of the workplace in the field, factory or office, the discussion fails, and not only because custodial rape and other major forms of state violence have been quite disingenuously written out of it.[2] The trick lies in how this radical tone has been achieved – by pitching accounts of violence in so general and abstract a manner that everyone and, in effect, therefore, no one, is really held accountable. I am, therefore, proposing a different look at the past and the present, one that tries to be vigilant about the shifting modes in which women's issues have been shaped and recast.

How did the 1970s become a 'beginning', a point of origin for the contemporary phase of the women's movement? An answer to this can only be laid out in a number of stages. Accounts of these years have rightly seen them as a crisis period for the Indian state, the clearest indication of which was the rise of a range of social movements at the time. Sudipta Kaviraj has spoken of the crisis of legitimacy suffered by the Congress from the end of the 1960s, which produced fundamental revisions in the Nehru model of politics and planned development, in favour of a more obviously empty rhetorics of poverty alleviation and increasingly centralised forms of government rule [Kaviraj 1988]. And yet, at precisely such a time, the *coding* of the Indian nation as socialist, guided by aims of national self-determination, still shaped political discourse to such a degree that these were also formative for a number of oppositional struggles. What must be presented as a crisis at one level,

I am therefore trying to suggest, was also a relegitimation of the state at another – as primary organ of governance, and source of potential well-being to its citizens. It was thus possible, and considered necessary, to question the state, expose the hollowness of its claims or the vested interests it harboured, while at the same time demanding a certain accountability through the rights of citizenship. However critical the institution of patriarchy was to become in the self-understanding of the women's movement, especially among autonomous groups, the Indian state has been the movement's most constitutive site of contestation, or so I would like to contend.

The imprint of these characteristics is clearly visible in what came to be one of the founding texts of the women's movement, the *Towards Equality* report of 1974 produced by the Committee on the Status of Women in India. This report is clearly a product of the initial phase of the women's movement and the inception of women's studies in the academy, when there were palpable motivations to demonstrate one's *Indianness*. The middle class women who formed the core of the movement (and supplied the authors of the report) specifically foregrounded rural and poor women in their research and activism, thereby claiming an authentic non-western, nationalist identity. The report is remarkable for its nationalist structure, perhaps even fervour. It is replete with references to the Constitution and its guarantees, to 'nation-building', suggesting measures to enable women in general, and rural and poor women in particular, to play "their full and proper role" in the making of the nation. There is no mention whatsoever of the UN Year for Women of 1975. In other – especially western – accounts of this period, however, this document is seen as little more than an offshoot of the subsequent UN decade, a top-down creation occasioned by international decision makers [see, for instance, Young 1993]. It is less important, it seems to me, to decide as to which perception is more accurate. The point is, rather, that the authors of the *Towards Equality* report apparently felt no compulsion to refer to the international scene, perhaps even actively suppressed it.[3] Contrast this with the 1994 *Country Paper* which was explicitly framed for the 1995 UN Conference: India's path to greater gender awareness is seen to be deeply intertwined with the period of 'contemporary social history' running from "Mexico to Copenhagen on to Nairobi and finally to Beijing" (p 1).

The revelations of the *Towards Equality* report had a shattering effect on a number of feminists 20 years ago. The initial post-independence years were a time of "complacency and acquiescence among women", we are told, since many feminists at the time had placed their hope on an egalitarian free India and the creation of a welfare state [Desai 1986; see also Desai and Krishnaraj 1987]. From the more disenchanted perspectives of the 1990s, it is not easy to assess the precise nature of the abdication and relegation of responsibility by pre-independence women's organisations to the emergent nation-state, which resulted in the effective containment of pre-independence initiatives and a quietism for close to three decades of post-colonial Indian history. Moreover, we are only beginning to rediscover the range of activities of the newly formed state which crucially implicated women – in the terrible costs of Partition, as well as through a number of legal enactments, of which the fate of the Hindu Code Bill is perhaps the most well known.

But it is clear that a subsequent generation of women in the 1970s were shaken by the absence of a women's perspective in the overall development process and the indifference of policy-makers and planners. As they put it:

> Three decades after Independence, and after three decades of planned development, the picture of women's position that emerged was startling in its grimness. [Desai and Krishnaraj 1987: 4]

It is particularly worthy of note how women in the academy were especially interpellated by the *economic* dimensions of women's deteriorating circumstances, an orientation which appeared to be decisively new. "The marginalisation and impoverishment of the majority of women within the transforming economy became the entry point for academics into the movement" [Agnihotri and Mazumdar 1995: 1874]. In the face of the reneged promises of independent India, it was not possible for a tiny group of middle class feminist intellectuals and activists to refer to the experiences of their worlds alone. It was more important to emphasize the exclusion of the vast majority of women from the promises of progress, modernisation and development, than to focus on the gains made by a minority of highly visible relatively privileged women.

In a recent essay, Satish Deshpande has suggested that one of the primary ways in which the Indian nation-in-the-making came to be conceived within the nationalist movement was in the form of an "imagined economy". In this scheme of things, Nehruvian socialism imaged the "patriotic producer" at the centre of the nation at the time of independence, surrounded by the apparatus of state-led planning and industrialisation [Deshpande 1993]. I would like to go on to suggest that during the critical years of the 1970s, the new emphases on development by feminists gave fresh shape and a new lease of life to the 'producer' in India's imagined economy, by focusing on working women and the problem of the invisibility of women's work.

The kind of supplementary place that had been alotted to women in the community development programmes financed by the Ford Foundation in the 1950s and 60s, which involved training women in the skills of 'family management' and 'home economics', thus came in for vehement criticism. Feminists in the 1970s could now emphasise the utter incongruity of projects meant to enable village women to become, in the words of the director of the Women's Programme in 1959, "a good wife, a wise mother, a competent housewife, and a responsible member of the village community" [cited in Mehra 1983].[4] They pointed instead to most poor rural women's traditional participation in both agricultural and non-agricultural production.[5]

Many of the chapters of the *Towards Equality* report dealing with religion and culture, the law, women's political status and so on were subsequently superseded in the major campaigns and new forms of scholarship that were to follow from the end of the 1970s. (Or, as in the case of an extremely interesting appendix on women's status in a minority community, which focused on Muslim women, some aspects of the report apparently went relatively unnoticed.) The more strongly highlighted 'discovery' of women's declining work participation rates and the overall worsening of employment opportunities of the majority of India's women became the basis of ongoing work,[6] and was thus a product of a conjuncture where, whatever the agendas of international development agencies or of western feminists, feminists in India produced national directives, sought to influence state policy, expanded the scope of statistical data collection, and so on, in the belief that this would arrest deteriorating trends. By exposing the ambivalent effects of development strategies that had been designed without regard for women, feminists demanded that policy-makers actively address the invisibility of women's contributions to the making of the nation.

It would take me well beyond the confines of this paper to dwell upon the different and conflicting strands of scholarship on women and development that characterised the 1970s and 1980s, from liberal demands for greater recognition of women's labour to more radical critiques of a development process that had reinforced patriarchal relations of inequality. I only wish to emphasise two things: the proliferation of studies that emerged at the cross-roads of class and gender, which has yet to be matched in any other field, and the special place of the debates on women's work within this nexus of intellectual and political engagement.

Relating to labour force participation rates, problems of underestimation, the sexual division of labour, the household, and criticisms of the very concept of work itself, these debates meshed directly with – indeed, actively reconstituted – prevailing conceptions of India's national identity, and the reconfigured primacy accorded to development. As is well known today, one of the most important results of all this effort was the discovery that women as a group, far from having nothing to do and with plenty of time on their hands, were *more* active than men, even though national statistical indicators would have us believe otherwise.

One of the crucial texts to come out of the subsequent decade of the 1980s was the *Shramshakti* report on self-employed women and women in the informal sector that was published in 1988. Drawing from a now vastly expanded literature and from extensive field surveys in different parts of the country, the authors produced detailed studies of women in the informal sectors of urban and rural India. The report was intended to show women's extremely vulnerable working conditions across diverse occupations under high levels of discrimination, as well as the range of health hazards women were exposed to on an everyday basis. The recommendations of the report – addressed to various ministries and departments at the central and state levels, but possibly also to international agencies – run to almost a hundred pages. Their demands included enlarging the definition of work to encompass all women engaged in production and reproduction, recognising women's position as major rather than supplementary wage earners, and finding strategies to enhance women's control over and ownership of resources. Also important was the demand to extend the rights and benefits of the privileged 10 per cent of the general labour force who make up the formal sector (in the case of the female workforce the corresponding figure is barely 6 per cent) to the rest of the working population. If necessary, a separate labour commissioner needed to be appointed to ensure that women in the informal sector receive the same security of employment.

The special focus of this report on the informal sector, it seems to me, can help serve as a bridge for the 1990s. The World Bank's *Gender and Poverty report*, with which I began, followed only a few years later. The World Bank report draws directly from the efforts of the National Commission on Self-Employed Women and Women in the Informal Sector as well as from most of the literature on women and development produced in India and elsewhere over the last decades. In other words, it is not based on case studies of its own. By drawing upon the past years of research, activism and government action in India, however, it is able to perform a remarkable feat: lay claim to an overall consensus on the nature of women in poverty, while in fact coming to often diametrically opposite conclusions from prior feminist concerns. This can only be understood, as I mentioned at the outset, by following up on the changed *significations* accruing to a number of terms.

Notions such as development, the economy and national identity, amongst others, have been critically transformed, at times almost unrecognisably so, with the new ideological legitimacy accorded to the market. International discourses, such as the so-called 'agency discourses' of bilateral aid donors or the World Bank, have been adopting this framework at least since the 1980s; official, active endorsement has come in India in the last few years.

As the 'agency discourses' have been saying for some time now, the informal sector is at the heart of the market economy and represents its prime model. In their view, although 'restrictive' third world state regulations are responsible for the growth of the informal sector in the first place, it is nonetheless here that high productivity is possible with low capital costs. Most important of all, since women are seen to predominate in this sector, it is their creativity and potential that needs special attention [for a fuller discussion see Kalpagam 1994].

The World Bank report draws upon this kind of understanding, while simultaneously underwriting the development literature on women in India. The incredible range of tasks poor women perform, their often greater contributions to household income despite lower wage earnings, their ability to make scarce resources stretch further under deteriorating conditions, all of which were documented and debated in the past, are now reworked: through a crucial shift in signification, these findings are no longer arguments about *exploitation* so much as proofs of *efficiency*. As the World Bank report concludes, poor women are clearly more efficient economic actors, with greater managerial and entrepreneurial skills than men. It is in full agreement with the *Shramshakti* report's recommendation that women require greater access to resources, especially credit and social services. But the last thing they need are the conditions of employment that obtain in the formal sector, which would only stifle productivity.

Views such as these are feeding into a moment in Indian history when production itself is no longer definitive for national identity. Or, at least, if we are to take the new ideology of export-led growth quite literally, production today is only meaningful if its destination lies beyond India's national boundaries. Moreover, for a middle class who now claim to *be* the nation rather than merely the representative of its citizens, *consumption* of the world's goods is of far greater concern.[7] Along with these discernible shifts, the crucial relation of the state to the economy as a whole is giving way to a fragile and contradictory welfarism: It is in the social sectors – such as health, family planning and primary education – that governmental intervention is still sought. Here, too, women are uniquely, if problematically, foregrounded – most frequently through marketing contraception for women's empowerment, or in drives to correlate literacy with reduced fertility rates. Development, therefore, is increasingly being referred to as a *social* issue rather than an economic or political one. It is not accidental, I think, that the specifically economic sections in the draft *Country Paper* of 1994 – on women in poverty and the possible effects of structural adjustment – are amongst the weakest in the entire report.

There are some signs that the growing hegemony of the middle class is not confined to its estimated 200 million members. The increasingly aggressive push for the small family norm, the growing incentives in thrift and savings schemes, references in the literature to women as 'household managers' and to self-employment schemes as 'micro-enterprises', point to a peculiar middle classisation (to coin an ugly word) of the poor, especially poor women. The message of the times seems to be that if poverty cannot be eradicated in, as they say, the medium-to-long-term, it can perhaps be endured better through more efficient management. And poor women, as we have seen, are made out to be more promising managers of poverty than their men.

III

How might one respond to some of the changes accompanying the loss of economic nationalism, such as those so briefly outlined above? Most of these developments, of course, have yet to take definitive shape. The promotion of the structural adjustment programme by the Congress since 1991 as 'irreversible' and, by implication, therefore, as uncontestable, even natural, has been strongly opposed within the women's movement, often by drawing upon the negative experiences of other third world countries who have been structurally adjusting since the 1980s. At the same time, however, globalising trends – fostered as much by strengthened western ties as by the sense of economic chaos emanating out of eastern Europe – are rapidly gaining ground, and are already ideologically and physically transforming the landscape.

It may even be too late to position oneself as primarily either 'for' or 'against' such

trends. Moreover, such positioning can get in the way of realising the range of critical work that needs to be done if we are to obtain a better grasp of the shifts taking place. A new generation of feminists do not even have the benefit of having known the kind of left-inspired economic nationalism which many of us could take for granted. Disaster stories of impending doom (produced in tones as religious as those in praise of economic reform), which tend to inevitably hark back to a cultural past free from western domination, appear least useful at the present juncture. Such apocalyptic views seem particularly ill-suited to combating the present, and even less for imagining new futures.

The first task, it seems to me, is to get a better sense of the connections and disjunctions between theory and history. On the one hand, those of us who came to see the frames of political economy as richer, possessing greater explanatory power than the narrower and obviously more questionable assumptions of neo-classical economic thought, may justifiably continue to argue for the strengths of socialist and Marxist-feminist orientations, in spite of the renewed hegemony of the liberal, utility-maximising individual. On the other hand, however, we cannot fail to address the fact that the debates on the political economy of India, which were expanded by the kind of feminist scholarship on women and development I discussed above, seem to have lost their authority in the present climate. The apparent failure of development economics has implied the 'victory' of neo-classical market economics and versions of management theory not out of any intrinsic merit but only by default. The new theories are *not* only *not* better than the old theories, they also mark the radical retreat of economics from the empirical realities it was supposed to explain.[8]

We are thus in the strange situation where, to our minds, superior theories on the strengths of the instruments of planning and the unique institutional tasks of the state have been found *historically* wanting in favour of more simplistic theories of the market. Such a situation seems to point not only in the direction of the failure of a particular economic strategy, but towards a much more fundamental crisis in *economic theory as a whole*. The aura and the rhetoric of economics, however, which are the effects of its power, make this almost impossible to acknowledge. To put it simply, while the field of economics itself is in disarray, the *ideologies* surrounding it continue to be effective.

The recognition that economic theories today are caught within fundamental uncertainties may tempt us to dismiss Fund-Bank thought or managerial economics. But we may also have to acknowledge that similar uncertainties mark the traditions of political economy and development planning. A number of Marxists seem to be tacitly responding to the new historical situation by qualified references to market socialism.

Along with efforts to reconceive 'the market', I would like to suggest that it is equally imperative to re-examine the state, especially from the perspective of the history of the women's movement. The location of patriarchy within the state apparatus by feminists at an early moment in the movement (and not only or primarily within the family) surely represents one aspect of the genius of the women's movement. This critique of the state, however, has only been a partial one so far. For what are we to make of the routine complaint of a 'gap' between planning policy and its implementation? Even as we have rightly celebrated efforts to overcome patriarchal opposition, such as went into the creation of a special chapter on women in the Sixth Plan (1980-85), similar efforts have not gone into monitoring the actual *practices* of the state, through the implementation of policy on the ground.

Let me take a very recent example from a related context, which exposes the contradictory nature of the state as an institution of power at the level of its practices – namely, the much publicised trial in Jaipur last year of the gang rapists of Bhanwari Devi, the sathin from Rajasthan's women's development programme. Much to everyone's shock and disbelief, the accused were acquitted by the high court, on the grounds that as higher caste Gujjars, they could never have raped a lower caste woman, least of all in the presence of her husband. Subsequently, a large rally was organised against the verdict, and predictably enough, representatives of the state government pledged their support.

What might one make of such contradictions, where one arm of the state is able to protect the accused while the other claims to stand by the victim? Our critique of the state is incomplete because we have not taken its class and caste composition and identifications seriously enough. The state may thus respond – at times with alacrity – to the claims made upon it by the women's movement, whose spokespersons are invariably middle class and upper caste, and who are also familiar with its structures. The story is quite different when it comes to implementing policies or laws in favour of a woman of a different class and caste, especially when it involves opposing those with whom the state identifies.

It is therefore not enough to insist – as many do today – that the Indian state is in principle more accountable than anonymous international capital, given that the government has overwhelmingly failed all but its privileged citizens. There is more that needs to be understood about the ambivalence of the state from the perspective of its historically evolving participation in the power relations of society. One way to approach this problematic is by studying the state apparatus in the realm of implementation.

These cursory reflections on the uncertainties of economic theory and on the need for a fuller critique of the state (now in retreat) should make us somewhat wary of the kind of confident proclamations about gender that are increasingly in evidence in development circles. Surely there is something deeply ironical about the circulation of phrases like 'gender planning' by development agencies at precisely a time when the instruments of planning are being dismantled the world over. Equally troubling are the often facile forms that references to gender are taking.

I would therefore like to conclude this paper with a critique of the World Bank *Gender and Poverty* report, less in terms of its predictable faith in the market than on the basis of its understanding of gender. Not only is such a deployment of gender, along with references to women's special economic agency, becoming increasingly widespread in our context,[9] it also interacts quite problematically with other aspects of our casteist and communal culture. Let me explain.

According to the World Bank report, the major axis of gender discrimination in Indian society arises from the inside/outside dichotomy:

> The culture's very definition of the female is her association with the 'inside' – the home. By contrast, men belong to the 'outside', where livelihoods are earned and political and economic power is wielded (p xv).

To begin with, of course, there is nothing particularly Indian about such a dichotomy – consider the centrality of the public/private distinction for theorising gender in the western world and elsewhere. Secondly, this distinction is open to considerable confusion. Only a very small percentage of women are in fact exclusively associated with the 'inside' – sections of the urban and rural middle classes – and their numbers are decreasing. The vast numbers of poor women who have to work, and the much smaller numbers of more privileged women who pursue careers are deeply enmeshed in the public sphere, though in very different ways. Gender norms for women in the 1990s are in any case being remoulded: the new cosmopolitan role model, as Sushmita Sen expressed it after receiving the Miss Universe crown in 1994, is one who can be "a perfect housewife" and still "go out and get what she wants".

Thirdly, and less obviously, it is particularly misleading to associate men as a unitary category with the outside world of

economic and political power. Such power is in fact in the hands of very few men, who are upper caste and Hindu, and middle or upper class and who may constitute no more than 10 per cent of the male population. For men from disadvantaged groups – disadvantaged by poverty, caste or minority status – the question of access to the 'outside' world of power needs to be specified and qualified.

Recall that the conceptual breakthrough represented by the notion of 'gender' lies in its status as a *relational* term, where an understanding of the specific forms of exploitation and domination suffered by women requires taking the world of men into account as well. How, then, might one conceive of the gendered relations of power between men and women from those exploited sections of society, with which development is most directly concerned? Matters become even more challenging if we heed Kancha Ilaiah's new study of the culture and economy of the dalitbahujans: patriarchal practices exist here too, he says, but without the existence of the "private" realm [Ilaiah 1996: 39-40]. This is a clue with immense implications for the world of development. For this means that the gender relations most relevant to us must involve the following complex relations of power between women and men: between women, who do not know the realm of the personal and private as 'we' do; and men, who are excluded from the dominant order of things, that is also to say, from the dominant order of patriarchy and its norms of masculinity (the bread-winning, caring male, sufficiently certain of his power *vis-a-vis* his women and other men, to be able to be a 'man'). I don't think our existing conceptions of the family and the household, and of the forms that patriarchy takes in these circumstances have sufficiently addressed the real complexity of such relations.

Unfortunately, however, too many contemporary references to gender tend to collapse back on to women. For example, recent discussions on the 'feminisation of poverty' or of the 'feminisation of labour' under structural adjustment end up treating women and poverty, or women and the new flexible reorganisation of labour processes in the informal sector, as more or less synonymous.[21] But what is much more troubling is that the discovery of women's economic efficiency ends up effectively collaborating with views of marginalised men as incapable and irresponsible. Under the present dispensation (where the new economic policy is by no means at cross-purposes with an upper caste communal culture), poor women are being feted as 'good' subjects who make 'sound economic sense', whereas their unruly men, seen as prone to violence, especially if they be dalits or Muslims, become the 'bad' subjects of modernity and its rationality, undeserving even of the rights of citizenship.

I began this paper with some remarks about the problems of inheritance for a new generation of feminists, in the face of the enormous changes in context that have brought us from the 1970s to the present. The ideologies of globalisation and structural adjustment seek to make one deaf to the immediate past and to anything that does not speak in the language of efficiency. Given such difficulties, I have tried to reconstruct the 1970s in terms of its frames of signification – the 'glue', so to speak, provided by the socialism and nationalism of the women's movement, which foregrounded the state as well as the mass of non-middle class women whose unrewarded labours were yet to be written into national policy. That particular glue no longer sticks, or so it seems today. Then as now, various forces at the local, national and international levels have been speaking in the name of poor women or the 'grass roots'. What is new is that the nationalism of that time is now being subjected to unprecedented pressures from without and within, making it important to envisage how one might lay claim to a history of struggle.

I would like to believe that the contemporary changes overtaking us, disturbing as they no doubt are, also harbour the possibility of bringing our political and intellectual engagements on to new and fruitful terrain. The time has long come for

those who have been working at the interface of gender and development to radically refigure its priorities, not by secluding ourselves within some putative 'pure' economy, but by broadening feminist conceptions of the economy itself. Rescuing the notion of gender from its ritualistic incantations and making it really work for a more emancipatory and inclusive social order is one of the ways open to us, one we have every reason to take.

Notes

[This paper developed out of talks given at the following places: IV Annual Conference of the Indian Political Economy Association, Hyderabad Central University, January 20-22, 1995; Madras Institute of Development Studies, November 13, 1995; and the VIIth National Conference of the Indian Association of Women's Studies, Jaipur, December 27-30, 1995. The comments and questions of the audiences at these venues are gratefully acknowledged. I have also benefited from the discussions of the law group at Anveshi Research Centre for Women's Studies, Hyderabad.]

1 I take this phrase from the title of Veena Das' recent book [Das 1995]

2 The authors of the *Country Paper* are quite self-conscious about the advance their chapter on violence represents -- as they expressly state, the *Towards Equality* report had not even conceived of its necessity

3 In a recent overview of this period, Indu Agnihotri and Veena Mazumdar quite readily acknowledge that "international developments ..influenced the movement in India from the start" [Agnihotri and Mazumdar 1995.1869]. But when it comes to setting up their account of the movement, the frame they adopt is straightforwardly national.

4 In an important recent study, Maitrayee Chaudhuri has rediscovered the report 'Women's Role in Planned Economy' produced in 1938 by an all-women sub-committee of Nehru's National Planning Committee [Chaudhuri 1995] What is remarkable about this document is the degree to which it participates in the Nehruvian 'imagined economy' by stitching together the citizen and the producer in its special focus on women's life and work. In Chaudhuri's estimation, this report even manages to cast post-independence studies of the 1960s and 1970s in a poor light. Her study unfortunately forecloses on the crucial question as to why this document subsequently disappeared from view, so much so that the far more conservative programmes of community development came to be implemented in the 1950s and 1960s.

5 In emphasising the centrality of women's status as workers, I am not trying to suggest that feminists were not carrying out important analyses in areas such as nutrition, consumption and the realm of the household, far from it. My point is rather, that even in these fields it became necessary to displace the exclusive focus on mothering in favour of a broader conception of women's activities. As the title of a typical essay put it, 'Who Is Malnourished – the Mother or the Woman?' [Jayarao 1980].

6 Here is a sample from the early phase: Banerjee (1978), Bhasin (1977), Gulati (1975), Mazumdar (1978), Agarwal (1981) and Saradamoni (1983).

7 For a fuller discussion of the ideological shift among the dominant classes from production to consumption, see Deshpande (1993).

8 In a recent workshop on feminist approaches to economic theory, it is interesting that different kinds of neo-classical and liberal economic theory came in for much more discussion than Marxist economics [Krishnaraj 1995].

One of the shortcomings in the new literature on gender and development is that different approaches to development, whether they be, say, neo-classical cost-benefit analyses or the structuralist perspectives of Marxism, all tend to be presented as more or less equivalent because of their shared limitations in incorporating gender issues. We thus get no sense of how any of these theories emerged historically, nor what their present functions in specific contexts might be. Even in as insightful a study as Naila Kabeer's which strongly emphasises the need for an institutional approach to gender as a relation of power, the institutions in question – the state, the household, the market and the community – remain abstract and without history that is to say, without effective content [Kabeer 1995].

9 The language of women's economic agency has already been so naturalised in the *Draft Country Paper*, that it even attributes this style of thinking to the *Towards Equality* report.

10 For a good discussion of the question whether a feminisation of labour can be said to be taking place in our industrial context, see Shah, Gothoskar, Gandhi and Chhachhi (1994). An early treatment of this issue was initiated by Krishnaraj (1987).

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Bill Clinton's Moribund South Asia Policy

Harold A Gould

The United States' south Asia policy of favouring Pakistan embodies the flaws and misconceptions inherent in the doctrine of containment. Driven by obsessive fears of the spread of Soviet and Chinese military power and sponsored domestic revolution, the US leadership made anti-communism the virtually exclusive criterion for determining a country's political value to US strategic interests. It ignored regional socio-historical realities of anti-colonialist nationalism and communalism and got enmeshed in the region's internal affairs as a partisan player. But succumbing, even in the post-cold war period, to the various parochial interests that profit from a perpetuation of the cold war subculture weakens America's chances of helping peace, prosperity and political stability in south Asia.

IN 1953, as the cold war was entering its most virulent phase, the incumbent Eisenhower administration initiated a policy toward south Asia whose ostensible purpose was to shore up a zone of perceived vulnerability in the *cordon-sanitaire* which the US and its principal allies had been attempting to erect around the existing perimeter of Soviet power since the end of the second orld war, and of Chinese power as well after Mao's victory over the Nationalists in 1949.

The attempted establishment of a ring of deterrent power around the communist world as the most effective means of protecting what were conceived to be vital western material, political and cultural interests was, as is well known, the concrete by-product of the doctrine of containment, whose fundamental premises were to a very great extent enunciated by George F Kennan[1] and Paul Nitze.[2]

The translation of this doctrine into concrete policy undertakings was begun during the Truman administration at the urging of policy advisors like Clark Clifford, George Elsey, Dean Acheson, James Forrestal and others of like mind and credentials, upon whose biases and perceptions Truman was highly dependent due to his own lack of any great depth and sophistication in world affairs. At the time of his selection as FDR's running mate in 1944, Truman was a parochial, machine-bred, mid-west politician. He had not been anointed because of his foreign policy or indeed any other major policy capabilities, but simply as a means of keeping the vice-presidency out of the hands of the Democratic Party's radical left wing at a time when Roosevelt's health was obviously failing fast.

In these circumstances, Truman's ascent to the presidency placed a person at the helm who, although by no means politically talentless, was not at the commencement of his presidential tenure as intellectually equipped or emotionally inclined, as Roosevelt clearly was, to confidently project his own independent perspectives on international problems into foreign policy deliberations with advisors who were largely better educated, predominantly East Coast Establishment, and products of essentially conservative, traditionalist socio-political backgrounds. As one analyst puts it, in part as a consequence of their class and interest orientations, and partly in deference to Truman's experiential limitations, "US officials defined the Soviet Union as the enemy" and drew their policy conclusions from this simplified formulation:

> Rather than dwell on the vacuums of power in Germany and Japan, rather than focus on the popular desire for reform and recovery throughout Europe, rather than emphasise the indigenous sources of civil strife in Asia, and rather than identify with revolutionary nationalism in the third world, they latched onto an interpretation of international developments that placed blame and responsibility on the Kremlin.

This mode of thinking was congenial to Truman:

> By simplifying the threat, depicting the world in bipolar terms, and naming the Soviet Union as an ideological enemy, the president and his advisors found it easier to resolve the ambiguities in the international situation and to take the necessary steps to enhance US security interests.[3]

Thus, driven by a simplistic, and some would say class-specific view of the state of the world, did the cold war commence for America. It would be a contest which on both sides revolved around a quest for security through the creation of conventional alliance systems and power balances spiced with intense ideological competition.

The evolution of NATO set the standard for this approach to international security. In place by the conclusion of the Truman administration, it became the perceived necessity of the successor Eisenhower administration to extend its logic beyond Europe to other regions of the world thought to be threatened by international communism. Although Africa and Latin America were included in this conceptualisation of communism's threat to western resources, territories, and institutions, the principal extra-European danger to western survival during the Eisenhower administration was perceived to emanate from Asia.

There were two impetuses for this enlarged security concern. One arose from Mao Zedong's ascent to power in mainland China; the other from growing political instability in the west Asia. The latter appeared to afford opportunities for communist subversion if not Soviet conquest (or perhaps a combination of both) whose result would be denial of the region's crucial oil and other strategic (including geographic) resources to the west. The rise of Mao, the isolation of what remained of the Chinese nationalists on Taiwan, the ensuing Korean war into which the communist Chinese regime intervened at great military and political costs to the US, and the disintegrating position of the French in Vietnam in the face of the mounting Vietminh anti-colonialist insurrection were seen as posing a dire threat to Japan and western security interests generally throughout the entire Pacific Basin.

Domestic political turmoil added further fuel to the fires of fear and insecurity which beset the US public and its policy-makers at this juncture in time. Faced with mounting right wing criticism of the policies pursued towards the Soviet Union and China as the second world war was drawing to an end (which allegedly were responsible for leaving Russia in control of eastern Europe, allowing Berlin to become an isolated pocket surrounded by Soviet military and political power, and failing to prevent the fall of the Chiang Kai Shek regime in China), and towards alleged laxity concerning communist penetration and subversion of American public institutions (including the state department), both political parties descended into a nationally debilitating mud-slinging contest over which of them was certifiably the most patriotic and *ipso facto* anti-Communist. The principal casualty of McCarthyism aside from the scores of public servants, intellectuals, writers and artists whose reputations were destroyed and talents lost to the country for a generation, was the possibility of less ideologically strident foreign policy formulation at a time when cool heads and mature judgment might have prevented or at least reduced the severity of a new arms race.

From this morass of international high anxiety and domestic political masochism emerged America's cold war policy for south

Asia during president Eisenhower's first term. What the Truman administration was still contemplating as it left office in 1952, the Eisenhower administration brought to fruition by 1954 through the determined initiative of secretary of state John Foster Dulles and his closest advisors.[4] This was the recruitment of Pakistan into alliance systems whose ostensible purpose was to simultaneously enhance both west Asia and south-east Asian security while making south Asia itself less vulnerable to communist penetration.

History has shown that the decision to promote the building of a Pakistani military machine as a means of deterring communist bloc expansion into the west Asia, south Asia and south-east Asia was a tragic failure. Domestic communism was never a significant threat to either Pakistan, India or indeed any other south Asian state. Regional political stability was not enhanced but exacerbated by the introduction of the cold war into south Asia. American influence and prestige in both major south Asian states was diminished over the long run (and is in danger of declining further) by its dogged adherence to a misguided and unworkable policy. With regard to the west Asia and south-east Asia, Pakistan's membership in the two treaty systems established to control events in those two regions (CENTO and SEATO) in no way prevented the eventual disintegration of the security structures which Pakistan's participation was supposed to enhance.

Regional and Global Imperatives

If this conclusion is accurate (and I concede that there is no unanimity about this) then the question is why was such a policy pursued? The answer requires that we, for analytical purposes, do something which US policy-makers, to their eventual discomfiture, failed to adequately do (and continue not to do): that is, adequately factor into their political calculations the two levels of social reality confronting the US (or indeed any outside power) at this time in south Asia: viz, the regional and the global. Admittedly, it can appear trite to put it this way, because this is axiomatic for any portion of the world towards which foreign policy must be formulated. What nevertheless makes it poignant for south Asia is that history seems to have gone out of its way to make the reconciliation of these two aspects of social reality especially challenging there. The social, religious and political cleavages besetting south Asia by the conclusion of the second world war were so great and so complex that even the wisdom of Solomon might have been hard-pressed to build a foreign policy that successfully avoided their pitfalls. Yet, as an emergent superpower confronted by a rival superpower seemingly determined to contest its hegemony on both political and philosophical grounds in every region of the world, nobody faults the US for trying. The US leadership clearly had understandable grounds for wanting to create policies which attempted to counter this comprehensive challenge to its material interests and fundamental values. The problem arose at the level of political judgment as to how to go about it.

Not that American officials were totally unaware of the powerful social forces that had determined the manner in which south Asia was entering the post-war world or that these indigenous forces would have to be factored into any policies undertaken toward the region. During the second world war, in fact, the Roosevelt administration had in many ways shown greater insight, sensitivity and sympathy toward Indian nationalism than had India's British masters.[5] What was lacking at this juncture in history was a sophisticated comprehension of how these forces might affect American efforts to develop a south Asian policy that genuinely served American long range global strategic interests in the post-war political environment.

This perceptional inadequacy grew directly out of the strategic fallacy inherent in the doctrine of containment. Driven by obsessive fears of the spread of Soviet and Chinese military power, and sponsored domestic revolution, the US leadership made anti-communism the virtually exclusive criterion for determining a country's political value to US strategic interests.

Governments outside the Soviet/Chinese orbit unwilling to recite the anti-communist litany were, even when politically moderate and/or pursuing independent nationalist agendas, subverted and replaced, where possible, through covert CIA operations (such as Iran, Guatemala and Chile) or diplomatically blacklisted where subversion proved unachievable (as with India, Indonesia and Egypt). In his brilliant refutation of George F Kennan's anonymously authored *Foreign Affairs* article enunciating the containment doctrine, Walter Lippmann called for a pragmatic, flexible strategy for dealing with the Soviet challenge that "instead of seeking to 'contain' the Soviet Union all over the Eurasian continent" by organising 'an ideological crusade" against them, and by trying "to make Jaffersonian democrats out of the peasants of eastern Europe, the tribal chieftains, the feudal lords, the pashas, and the warlords of the Middle East and Asia", (p 44) sought instead to pursue policies that disdained ideological evangelism and enabled us "to be the friend and the champion of nations seeking independence and an end to the rule of alien powers".[6]

Lippmann's formulation implicitly, in other words, recognised the importance to strategic planning of tailoring global diplomacy to regional social realities; to the cultural, historical and ideological nuances that operated in the international grass roots; to post-war nationalism. It should be reactive and flexible instead of monolithically fixated on an ideologically imposed litmus test of political worthiness or trustworthiness. It should be tolerant of diversity where such tolerance offered opportunities to deny strategic advantages to one's adversary. Lippmann's formulation, in short, was the diametric opposite of the American foreign policy that culminated in the John Foster Dulles formula for coping with the Soviet/Chinese challenge to the west.

Within this framework, the Pakistan policy embodied all of the flaws and misconceptions which beset containment. It ignored regional socio-historical realities, the most important of which were anti-colonialist nationalism and communalism. It projected the European experience with the rise of fascist totalitarianism during the inter-war years (allegedly the cause of the second world war) onto the cold war's periphery where it had little or no analogical relevance, resulting in foolish strategic decisions such as our military interventions in both south Asia and Vietnam. It fostered intellectual superficiality about third world politico-economic doctrines: failing, for example, to distinguish between different forms of socialism, many if not most of which (such as in India) were anti-Stalinist, jealously nationalist, dedicatedly democratic, strongly resistant to internal political subversion and, therefore, potentially useful resources for American foreign policy.

The fundamental error which this dominance of ideologically-driven global anti-communism caused the US government to make in south Asia was to publicly accept as a matter of policy (regardless of strong private doubts) the assertions of the Pakistani leadership from 1952 to 1954 that their willingness to join the political premises when, in fact, their real reason for doing so was to obtain the military wherewithal to eventually wage war against India, the only enemy with which they were genuinely preoccupied. The result was to implicitly enmesh the US in the region's internal affairs as a partisan player in the separatist movement which in 1946 had cleaved South Asia into two separate, deeply antagonistic states.[7]

Enhancing Pakistan's arsenal and incorporating them into our alliance systems had two deleterious consequences:

(1) We created a false impression in Pakistan that, despite the formal restrictions we placed on our military assistance to them (viz, that they must not use these arms against India), we tacitly sided with them over Kashmir and

shared their fears of Indian hegemony and that, therefore, they could count on the US to support them in future military confrontations with India. As time passed, this became an increasingly onerous burden on the relationship (especially, when Pakistan attacked India and we not only refused to help but actively endeavoured to restrain them by cutting off their military and economic aid) which virtually negated whatever practical value it originally had.[8] (2) We further exacerbated our already tenuous relations with India, the largest and most important power in the region, and the only mature democracy, by increasing the Pakistani threat to her security, causing her to eventually look elsewhere for compensatory military and political support, and undermining Jawaharlal Nehru's efforts to keep the cold war out of South Asia. This latter, as is well known, was fundamental to the non-alignment policy which defined Nehru's identity as an international politician. And because this was the case, neither he nor the rest of India's political establishment ever really trusted the US again.

This permeation of US foreign policy with anti-communist ideology which led to the misbegotten Pakistan alliance created a subculture of perception and interaction between America and India dominated by pique and mutual frustration that persisted not only through the cold war but into the post-cold war era as well, right up to the present. And ironically, the alliance policy itself, which at its inception was adjudged worth the price of the bad relations with India that would have to be paid for it, led to a similarly frustrating, piquish, and counter-productive relationship with Pakistan itself which also continues to plague US south Asian policy to this day. The reason, of course, as every anthropologist knows, is that subcultures die hard, even in the sedate world of diplomacy; once created they tend to take on a life of their own which can persist long after their original purpose has ceased to be relevant.

At every subsequent milestone after 1954, cold war ideology overrode all other considerations in the determination of US policy toward south Asia even when at times a given policy did in fact make sense from a regional grass roots standpoint.

The first post-alliance milestone, interestingly, came during the second Eisenhower administration after Eisenhower himself came to the realisation that in Pakistan the US had acquired a political tar baby. By 1957 he declared, "our tendency to rush out and seek allies was not very sensible", and that our military commitment to Pakistan "was perhaps the worst kind of a plan and decision we could have made... a terrible error but now we seem hopelessly involved in it."[9]

In an effort to redress what he perceived to have been a mistaken policy, the president reached out to Nehru, visited India himself in December 1959 (after Nehru had visited Washington in 1956), and took the position in his own councils that a democratically structured, politically stable, economically viable India, despite being a non-aligned, ostensibly socialist state, was after all an asset to American strategic interests. Yet, the compulsions and intellectual conventions of the cold war had become so deeply entrenched in the Congress, the military, the press and the public that Eisenhower found himself imprisoned by political conditioning which McCarthyism, his own secretary of state, and indeed opportunistic aspersions he had cast upon the loyalty and integrity of his predecessors during his presidential campaign had wrought.[10] Once you were in, you could not get out. "Not even the programme's most severe critics in ICA and the State Department", says McMahon, "considered an aid cutback either practical or prudent. Most believed, on the contrary, that any direct pressure on Karachi in that regard would probably just exacerbate the country's massive economic problems."[11]

In the following administration, president Kennedy was able to carry reconciliation farther, but ironically only so long and so far as it could be justified in the name of the cold war. The major shift toward economic aid for India as a means of keeping her politically stable and economically viable was conceived and justified as a means of deterring India from succumbing to post-Stalinist Soviet political and economic blandishments.[12] India's only flirtation with serious military ties to the US also occurred as a by-product of the cold war, during the desperate days in 1962 when Chinese forces inflicted a devastating defeat on the Indian army in NEFA and appeared ready to follow it up with an invasion of India itself. When these threats abated, however, and India no longer felt as dependent on the US military umbrella, to the annoyance of the US she resumed her non-alignment posture. The cold war had given and the cold war had taken away![13]

The erratic pattern continued over the ensuing four years: The Johnson administration became increasingly incensed with Ayub Khan when he reacted petulantly to their decision to provide modest military assistance to India, so that she could reinforce her China border, by threatening to 'reappraise' Pakistan's commitments to SEATO and CENTO, undertaking political overtures to both the Soviet Union and China, and continuing a process of expanding relationships with other non-aligned states around the world which had commenced in 1962. Coming at a time when the US was being led into the Vietnam quagmire by a monumentally temperamental president desperately searching for legitimation of this policy from the world community, the Pakistani leadership could not have chosen a more inopportune occasion to antagonise its principal benefactor. In McMahon's words, "With the righteous arrogance of decision-makers convinced that their view of world affairs could brook no responsible dissent, Johnson and his senior advisors condemned what they considered the reckless and irresponsible behaviour of a once loyal ally."[14]

Annoyance turned to rancour in 1965 when president Ayub Khan unleashed his American equipped army upon India in a dramatic attempt to settle the Kashmir dispute by force. The tar baby had come home to roost once again as an embarrassed Johnson administration, confronted with a Congress that wanted to terminate all aid to both India and Pakistan, found itself compelled to impose sanctions on both sides and, in the end, abnegate what was left of its leadership position in south Asia by stepping aside and allowing the Soviet Union to broker a peace settlement at Tashkent between the two combatants. This was the final act in a policy which in a single decade had totally failed: instead of being deterred from penetrating South Asia, both the Soviet Union and China had experienced an enormous increase in their influence by taking advantage of the intra-regional cleavages which US policy had intensified. Pakistan had turned toward China. It was really from this point on that Indira Gandhi determinedly turned toward the Soviet Union as India's arms supplier and toward trying to transform the Indian government into a Soviet-style command state.[15] In short, instead of politically stabilising south Asia, American policy had made war and threats of war between India and Pakistan a permanent state of affairs in the subcontinent. McMahon has stated it well:

> In so many respects, the Indo-Pakistani war of 1965 stands as a watershed in the history of American relations with the Indian subcontinent... Johnson and his chief policy advisors recognised the obvious: that the war signalled the frustrating end to a policy cycle set in motion with the formation of the Pakistani-American alliance... now, those illusions lay shattered along with peace in the subcontinent... An investment that totalled nearly $12 billion... had produced amazingly little support or understanding for the United States in either country.[16]

Yet, amazingly, failure did not lead to any significant alteration in the basic policy. The subcultural parameters of the policy continued to drive it and continue to this day to drive it. The Nixon administration, in fact, revitalised the Pakistan relationship not because Pakistan had seen the 'error of its ways' but on the contrary because the ties

it had developed with China out of disillusionment with the American connection suddenly proved to be useful for a new cold war strategy devised by Henry Kissinger. This, of course, was his initiative to 'open' China and normalise relations with her as a means of exploiting the cleavage between China and the Soviet Union. Kissinger wished to use Pakistan as the conduit for his secret mission to Beijing to pave the way for president Nixon's state visit to China in 1972. Between these two events, however, the Bangladesh insurrection occurred which led to war between India and Pakistan for the third time. Once again the cold war subculture combined with Nixon's personal enmity towards the Nehrus to determine United States south Asian policy. The US first decided to look the other way concerning west Pakistani genocide towards the Bangladeshis and then to more openly and blatantly take sides in the conflict than America ever had done in previous Indo-Pakistan confrontations. This 'tilt' even included gunboat diplomacy, as the carrier Enterprise moved into the Bay of Bengal for the obvious purpose of trying to intimidate India into limiting its military operations in Bangladesh. It was clearly the *quid pro quo* for the Pakistani government's co-operation in the China initiative. Regional social realities as always took a back seat to the global ideological imperative. As Kux has correctly stated it:

> The US role during the crisis is reasonably clear; the rationale for the Nixon-Kissinger policy has remained less clear. Part of the difficulty has been that the President and Kissinger perceived the crisis almost entirely in terms of its global implications – as they interpreted these – and the US government's South Asia hands and most other observers considered the crisis as a regional affair with limited broader implications.[17]

The pattern of cold war-driven oscillation continued through the Ford, Carter and Reagan administrations. The precipitant would change but the theme always remained the same: relations between India and the US would backslide at each point where events in or pertaining to south Asia impacted differentially on the two countries in such a fashion as to impel the US to apply cold war subcultural standards to the policies it adopted. During the Ford administration the abrasive issue was Indira Gandhi's emergency, her desperate attempt to politically save herself by the literal imposition of a Soviet-style state upon an India, one might say, constitutionally antithetical to such a high order of authoritarianism. And even though the US was in this instance morally correct in condemning the emergency, some of the reasons why Gandhi's regime had slid this far toward authoritarianism, and pursuit of the nuclear option (as of 1974), are traceable to a very great extent to cold war-driven measures pursued by Ford's immediate predecessors which had led India not only toward excessive military and economic dependence on the Soviet Union but also toward attraction to her political institutions as well.[18]

Thornton summed up this period very aptly:

> When the Republicans handed the presidency over to Jimmy Carter in 1977, they left US-Indian relations in much the same shape that they had found them. On the negative side, there had been an experience that, for the Indians at least, had generated lasting bitterness and taken off what little bloom still existed in US-Indian ties. On the positive side, the much-touted maturity of the relationship was a significant gain. Neither expected too much from the other and would thus not be very disappointed or disillusioned as the relationship encountered problems and difficulties.[19]

In the Carter administration the new irritants were Tarapur and Afghanistan. The former pertained to a licence India applied for in 1977 to import 7.63 tons of low enriched uranium fuel to sustain operation of its Tarapur nuclear reactors. In ambassador Goheen's words, "The action was in accord with the thirty-year US contractual obligation to be the sole supplier, and it was well within the schedule for resupply that had been agreed upon."[20] But as US Congress threw a monkey wrench into the sanctity of this contract with the passage of the Nuclear Non-Proliferation Act of 1978 (NNPA) which ordained that existing bilateral contracts were to be nullified if they could not be renegotiated to conform to the stringent restrictions on reprocessing laid down in the bill. Resolution was finally achieved early in the Reagan administration by allowing the French to supply India with the needed nuclear fuel, but only after the foundation had been laid for mounting disagreement and tension between the two countries over nuclear proliferation issues.

The Soviet invasion of Afghanistan in late 1979 was, of course, the principal new source of mutual pique as the Carter administration drew to a close. India's refusal to take a knee-jerk pro-western stance on this event and Washington's knee-jerk rush to restore the arms relationship with Pakistan ignited the full cycle of cold war-driven rancour between the two countries. Indira Gandhi's return to power in the seventh general election of 1980 crystallised the newly emergent gulf. Reagan's electoral victory in the US brought to power a regime that was determined to fight the fiscal and symbolic equivalent of a third world war under the rubric of the cold war subculture, through massive defence spending, extremist rhetoric (e g, the "evil empire" theme), operatic military adventures like Grenada, and employing Afghanistan, somewhat analogously to the way the fascists and communists employed Spain in the 1930s, as a major surrogate battlefield.

Interestingly, while the usual piquish exchanges occurred during the early stages of the Afghan war, as it dragged on, a relative quiescence settled over US-Indian relations. In part this may have been due to the intractability of the conflict. But in part, it had to do with a leadership and correlative attitude change in New Delhi. After Indira Gandhi's assassination in 1984 and Rajiv's assumption of the prime ministership, a new atmosphere of expectation arose, because in the initial flush Rajiv, with his Doon School image, boardroom political style, and apparent amenability to economic liberalisation, gave heart to American cold warriors and global entrepreneurs that India might at last be inclining toward the west. This was reflected in senator Orin Hatch's up-beat senate speech on May 19, 1983, in which he declared: "I believe a historic shift is underway", which heralds the "end of an Ice Age", which has perpetuated "cool relations between the United States and India for many years".[21]

Post-Cold War Opportunities Available to the Clinton Administration

Even though Rajiv Gandhi suffered assassination in his turn in 1991, the last part of the Reagan-Bush era presented the incoming Clinton administration with a remarkable opportunity to make a fresh beginning in US relations with both major powers in the subcontinent.

(1) P V Narasimha Rao, the successor prime minister was a senior, centrist Congress Party politician with considerable foreign policy experience (having been Indira Gandhi's minister for external affairs from 1980 to 1984) who was determined to push ahead with economic liberalisation at home and reshape Indian diplomacy abroad to conform to this mandate. Helping the Indian economic sleeping giant to awaken and connect itself with the global economy were the substantial, dynamic overseas Indian communities, especially in the US and Great Britain, who could bridge crucial entrepreneurial, political and communication gaps between India's domestic political economy and those of their chosen second countries.

(2) The cold war had ended on president Bush's watch with the Soviet Union's collapse. This had relieved both parties of burdensome diplomatic baggage: the US of any empirical basis for continuing the anti-communist obsessions which had plagued its south Asia policy for four decades, and India of its economic dependence on, and political subservience to the Soviet Union,

and its equal and opposite obsessive need to recite the mantras of orthodox non-alignment whenever disparities between behaviour and principle backed it into embarrassing diplomatic corners This structural change was a critical factor in providing both sides with a greater measure of manoeuvrability in the post-cold war world that was dawning.

(3) The Pressler amendment to the foreign operations bill in 1985 (that denied military and economic assistance to Pakistan unless the President could certify that Pakistan was not attempting to produce nuclear weapons), plus the end of the Afghan war, had at last given the US leadership an opportunity to remove the Pakistani tar baby from its back. No longer need the US be as vulnerable to the Pakistan lobby which had for so long adroitly exploited the cold war subculture through coalitions they built reaching across Capitol Hill, the State Department, the Pentagon, the defence industry, and segments of the scholarly community.

Sadly, however, this new opportunity has thus far not been imaginatively seized upon. The ideological, intellectual and material encumbrances of the cold war subculture have proved far more intractable than many hoped. Repeatedly, in response to them, the Clinton administration has made decisions which threaten to preserve the existence of the Pakistani tar baby and allow it to continue holding America's south Asian policy hostage to its obsolete political assumptions. Helping this process, of course, has been the rise of Islamic militancy not only in west Asia but in central Asia as well, with attendant fears that the cries of their leaders for holy wars against Israel and the US will soon acquire nuclear muscle. In some quarters, such fears have already replaced the Red Peril as the successor global obsession. There is danger, of course, in not being cognisant of possible threats to American, indeed world, security in such developments, but greater danger in allowing them to become, as happened during the cold war, such pervasive concerns that mitigating regional socio-cultural realities are left out of policy formulations.

Signs that this has become the case with the Clinton administration and sections of the US Congress abound. Perhaps the initial manifestation occurred with the appointment of an assistant secretary of state for south Asia who despite having a Pakistani political axe to grind was nevertheless given the position because of her personal ties to the Clintons. Almost immediately she sent US-Indian relations careening backward into the arms of the cold war subculture by declaring in an October 28, 1993, background briefing that the US considers Kashmir a "disputed territory" and does not, consequently, recognise "the Instrument of Acccession as meaning that Kashmir is for evermore an integral part of India". This exchange arose from president Clinton's having earlier mentioned the Kashmir dispute in a speech, no doubt at the behest of the assistant secretary of state which, of course, gave the impression that policy changes were being contemplated. The reverberations this instinctively pro-Pakistan statement set off in India still have not abated despite numerous attempts by subsequent US government spokesmen to reassure New Delhi that no contemplated policy changes lie behind the remark. It did not help, of course, when the assistant secretary's own reaction to Indian official and press criticism was to dismiss them with the patronising remark that "it's very easy to create a storm in Delhi. Delhi enjoys storms".

More serious problems have followed. Congress and the White House, sometimes separately, sometimes in concert, have seemingly taken turns in adopting public positions and policies which perpetuate the rancorous atmosphere of the cold war long after any material gains from doing so can be anticipated.

The most egregious of these misguided undertakings has been the alliance between the White House and the Republican-dominated US Congress. The purpose has been to undermine the Pressler amendment, thus permitting a resumption of arms shipments to Pakistan despite that country's unwillingness to forgo its pursuit of the nuclear option. The struggle on Capitol Hill between opponents and proponents of the so-called Brown amendment (no 2078) to the FY 1995 foreign operations bill has generated one of the most intense struggles over the future direction of US south Asia policy in years And the pity is that its success has soured relations between India and the US once again with no palpable gains to long range American interests to be foreseen from doing so.

Both the invited expert testimony before Congressional committees and the content of the floor debate in the Senate revived all the tired rationalisations and regional cultural and historical ignorance that had been employed by administration and congressional advocates of the Pakistan connection during the cold war.

Technically, the issue was not the complete abandonment of the Pressler amendment and the permanent restoration of arms assistance to Pakistan. Somehow it had become the cause celebre of retiring Senator Hank Brown of Colorado to become the man of destiny and lead an effort to obtain what for Pakistan was termed a "one-time exemption" from the Pressler amendment. This despite the fact that Pakistan's leaders had repeatedly thumbed their nose at every effort the US government had made to get the Pakistanis to promise to stop trying to manufacture nuclear weapons. Even direct talks between president Clinton and Benazir Bhutto during her orchestrated state visit to the US (I say orchestrated because its purpose was to help lay the groundwork for the lifting of the Pressler amendment) in April 1995 failed to gain such assurances. The rationale put forward by the White House and Senator Brown for this anachronistic initiative was two-fold: on the one hand, it was justified on the grounds of "fairness"; on the other, on the grounds of "leverage".

The "fairness" issue arose from the fact that Pakistan had bought and paid for 28 F-16s manufactured by Lockheed which then could not be delivered because the president could not certify that Pakistan was not trying to produce nuclear weapons. In other words, Pakistan's intransigence had brought the prohibition down upon itself. Despite this fact, however, the reasoning went that since Lockheed refused to refund the money which Pakistan paid for the undelivered aircraft, "fairness" demanded not that Congress simply appropriate the money Pakistan lost in the transaction but that they be compensated by receiving a laundry list of alternative weaponry worth $368 million which would allegedly increase her defensive capabilities without "upsetting" the balance of power between her and India. The list included M198 howitzers, Harpoon missiles, three P-3 Orion aircraft, and a horde of components and spare parts.

The "leverage" issue revolved around the administration's claim that showing magnanimity and flexibility toward Islamabad in this way would avoid "alienating" them further than they allegedly already were and thus make them more amenable to political persuasion regarding non-proliferation, collusion with China, and radical Islamic states like Iran, provocation in Kashmir, and suppressing the drug trade without restoring the arms relationship with Pakistan and through this alienate India and jeopardise peace in the subcontinent were rejected out of hand by the Capitol Hill and administration proponents of the Brown amendment. A parade of academic and think tank experts were paraded before the Senate foreign relations subcommittee to confer intellectual legitimacy on the initiative. Care was taken to call only witnesses who were in agreement. Dissenters were not welcome! The secretary of defence sent in testimony, as did the assistant secretary of state for south Asia. The American ambassador to India, himself a former defence department functionary, weighed in on the pro-Pakistani side through public statements and private representations. Their principal role was to assure doubters that the arms provided to Pakistan under the one-time exemption would not upset the military balance between

India and Pakistan, despite protestations to the contrary by India, by numerous south Asia specialists, and by many members of Congress themselves who possessed more than a cursory understanding of South Asian political, historical and social realities. These latter included Senators Diane Feinstein, John Glenn, Paul Simon, and John Kerry. When Congressional opposition, mobilised by Senator Feinstein, almost turned the tide against the Brown amendment at the last minute, an *India Abroad* story (November 10, 1995) revealed that the move (in the form of an amendment put forward by representative Joe Knollenberg of Michigan that would limit the package to economic aid alone) was stymied by a letter to senator Brown from Joseph Nye, Jr. "a senior Pentagon official" Ostensibly, it succeeded because it effectively reassured the legislators that the arms package would not militarily destabilise south Asia but probably was decisive in actuality because it made clear that the entire weight of the White House, the state department and the defence department were implacably behind the Brown amendment.

It is this latter fact that makes it clear that the adoption of Brown by the House-Senate conference committee on October 24, 1985, as a one-time exception to the Pressler amendment, was in reality the opening salvo by a diverse coalition of interests whose purpose, pious denials to the contrary notwithstanding, was to desanctify the Pressler amendment so that eventually it will prove possible to sweep it aside completely and restore in some form the essence of the old cold war relationship with Pakistan, only this time with a nuclear edge to it since Pakistan has shown not one scintilla of willingness to discontinue its quest for a nuclear capability. In fact, since the passage of the Brown amendment there have been revelations of new transfers of nuclear technology to Pakistan from China, probably with tacit US approval despite public protestations to the contrary.

The question then is who are these retrograde interests and what do they stand to gain from setting back the clock in south Asia at a time when the forces of progressive change are blowing so briskly there? A corollary question is can they really succeed in the long run especially given the new economic forces that are indeed at work there?

The defence industry is certainly a significant player in the anti-Pressler scenario. Pakistan has not necessarily been the most lucrative source of American arms sales in recent years, but thanks to the Pakistan alliance, despite its many ups and downs, and despite the ultimate political failure of the policy, it has remained a steady source of weapon purchases for certain arms suppliers, most particularly companies like Lockheed with economic tentacles in many congressional constituencies including, now that it has merged with Martin Marietta, Hank Brown's home state of Colorado where it is the largest single defence employer.

There are a considerable number of legislators on Capitol Hill who derive substantial financial gains from keeping the cold war subculture alive in south Asia. The manner in which some do so is itself a reflection of the dramatic increase in the size, diversity and economic clout of the south Asian population resident in the US. Essentially, they profit from India bashing In exchange for campaign contributions they champion such causes as Khalistan and Kashmir by promoting legislation and resolutions in Congress and by using their political status outside Congress to demonise India. They are an automatic voting bloc for undertakings like the Brown amendment. There are at least 35 members of the House of Representatives who fit this category, most are Republicans but some are Democrats. Senator Jesse Helms, now chairman of the Senate foreign relations committee, has consorted with pro-Khalistan lobbyists since the early 1980s commencing with the notorious Jagjit Singh Chauhan and Gurmit Singh Aulakh (president of the Washington-based Council of Khalistan). Perhaps the archetypical example of this genre of congressman today is representative Dan Burton of Indiana whose speeches and statements in the House persistently vilify India using totally biased information about human rights violations supplied to him by his pro-Khalistani benefactors. In exchange for rendering this service, Sikhs donated 34 per cent of his reported campaign contributions in 1993 ($ 18,940 of $ 55,255) In 1991 and 1992, $ 61,076 came from 146 Sikh contributors from all over the US while 202 Indiana residents had donated $ 96,025.

In fairness, there is also an 'India caucus' on Capitol Hill, mostly Democrats, many of whom are from constituencies in states like New Jersey and New York where there are fairly substantial numbers of Indians. But this group has so far failed to match their anti-Indian counterpart in effectiveness, no doubt in part because Democrats no longer control Congress and because the Clinton administration has shown greater interest in placating Pakistan and Pakistani interests than in taking the initiatives that would once and for all remove the Pakistani tar baby from the back of American foreign policy

Among the players in today's south Asian drama, the Clinton administration's motives are the least easy to fathom and must be attributed in great measure to simple naivete leavened by the poor guidance they are receiving from trusted advisors. Clearly, as the Brown amendment debate revealed, there remain potent pro-Pakistan lobbies in both the state and defence departments despite the end of the cold war and the utter failure of the Pakistan alliance which it spawned. These lobbies certainly retain ready access to the White House, especially where Clinton's own choice for assistant secretary for south Asia has strong affinities to Pakistan. In addition, the Pakistanis themselves maintain very active lobbying efforts in Washington, as indeed they always have, which mesh well with the long-standing congressional, Pentagon and defence industry interests spawned by the cold war. Indian lobbying has always been less effective both because the government of India invests less resources in it (though admittedly it has vastly improved in recent years) and because India, with its non-alignment policy, its socialist economy, and its tilt toward the communist bloc, was less sympathetic in establishment eyes, and in any event had less material to whet material appetites with on this side of the globe.

Yet in some respects the Clinton administration has adopted very positive orientations toward India, obviously in an attempt to try and appear "even handed". This too, of course, is an old story in American south Asian policy. Our global preoccupations have perennially driven us to favour the Pakistan relationship at the expense of the Indian; our concern for the intra-regional tensions which our global policies have created have driven us in turn to search for ways to placate India, to keep them on the string, as it were, usually at the cost of irritating Pakistan. We have tried to have our cake and eat it too in south Asia by trying to maintain two separate and incompatible foreign policies toward the subcontinent's two principal states. Dual bilateralism has not worked well at the intra-regional level because it has counter-productively enmeshed us in the region's grass roots political conflicts.

Our encouragement of India's economic liberalisation while at the same time we coddle our Pakistani tar baby by winking at their quest for nuclear weapons, undermining the one instrument that deters that quest, and shipping them more arms that destabilise the region is the latest case in point. Visits to India by Ron Brown and other administration officials in its behalf have clearly helped open doors which are accelerating India's entry into the global market-place. The First Lady's visit to India was a significant symbolic gesture, tainted somewhat by a side trip to Pakistan whose purpose was to pave the way for Benazir Bhutto's trek to Washington to help catalyse the Brown amendment.

But succumbing to the various parochial interests that profit from a perpetuation of the cold war subculture weakens America's

chances to help cultivate peace, prosperity and political stability in south Asia. A change in strategy benefits Pakistan as much or more than it does India. Pakistan does not need more weapon systems for its military machine. It needs economic liberalisation, and capital infusions through access to the global economy. It needs rapid economic development. It needs social reform that addresses the concentration of the country's wealth in the hands of a narrowly circumscribed Punjabi landed, bureaucratic and military elite whose political survival depends upon the control of the military machine which American south Asia policy has helped to perpetuate for the past 40 years. It needs to get over its obsession with India (a product of the separatist movement) and settle its differences with India, especially Kashmir, which can only be done if the Pakistani leadership is no longer encouraged to believe that alliance with the US enables it to avoid direct and realistic negotiations with India

Finally, it is tantalising to think that in the end US relations with India, if not with Pakistan, may resolve themselves in pragmatic terms, at least. By this I mean that economic liberalisation, the growing influence of the overseas Indian community on both governments, and the massive flow of American corporate investment capital into India may soon reach that critical mass where political bickering simply becomes moot. We saw last year, and once again this year, how irrelevant China's human rights record has become to president Clinton's decision on whether or not to revoke China's MFN status. The lobbying clout of that segment of the corporate community which has invested massively in the Chinese economy and is poised to plunge even deeper into the China market has repeatedly forced the Clinton administration to disaggregate trade from human rights. A similar scenario is emerging in south Asia *vis-a-vis* US-Indian relations. If the "India market" continues to ramify as massively as the China market has done, the point may not be far distant when the Pakistan lobby and the cold war culture which impelled Congress and the administration to move backward in time with the Brown amendment, will be unable to consummate their contemplated ultimate goal of permanently nullifying the Pressler amendment. If restoring cold war policies in south Asia appear to start seriously threatening the region with war and nuclear destruction, politically mobilised corporate self-interest may compel the Clinton administration and its hawkish supporters on the Hill to do what so far they have proved too unenlightened to do otherwise: viz, shear American south Asia policy once and for all of the Pakistani tar baby and concentrate on the creation of post-cold war policies which bring peace, prosperity and political sanity to the region.

Notes

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1 Commencing with his so-called 'long telegram' while *charge d'affaires* in Moscow, and culminating during his days as founder and first head of the policy planning staff (PPS) in the state department with his seminal, "Mr 'X' " article, "The Sources of Soviet Conduct" published in the July issue of *Foreign Affairs* (July 25, 1947, 566-82).

2 The principal architect of NSC 68 when he was director of the policy planning staff in the 1950s.

3 Melvyn P Leffler, *A Preponderance of Power: National Security, the Truman Administration and the Cold War* (Stanford, CA. Stanford University Press, 1992), p 100

4 J McMahon, *The Cold War on the Periphery: The United States, India and Pakistan* (New York Columbia University Press, 1994), Dennis Kux, *The United States and India: Estranged Democracies* (Washington, DC. National Defence University Press, 1993), Harold A Gould and Sumit Ganguly (eds), *US-India Relations: The Hope and the Reality* (Boulder, CO Westview Press, 1993).

5 Harold A Gould and Sumit Ganguly (eds), Ibid, see especially Chapters 1 and 2.

6 *The Cold War, A Study of US Foreign Policy* (New York Harper and Brothers, 1947), p 62

7 See Robert J McMahon, Ibid "By pledging their willingness to co-operate with western-sponsored defence arrangements for the Middle East and contrasting their unblinkered support for US cold war policies with India's defiant independence, Pakistan's ruling elite managed to impress a growing number of American decision-makers with the possible benefits of an alliance with Pakistan" (p 124)

8 Robert J McMahon's *The Cold War on the Periphery: The United States, India and Pakistan*, Ibid, masterfully documents this sombre process.

9 Emphasis added. Quoted by McMahon, Ibid, from memo of discussions at NSC meeting, January 3, 1957, *Foreign Relations of the United States (FRUS), 1955-57* (Washington, DC).

10 It is rarely remembered that after he became the Republican candidate in 1951, Eisenhower tacitly endorsed the political right's conspiracy theories concerning domestic political dissent and alleged foreign policy failures, like the 'loss' of China, to the extent of impugning the integrity of his former boss, general George C Marshall. This, in fact, was the principal reason why president Harry Truman turned so bitterly against him

11 McMahon, Ibid, p 266 See also Kux, Ibid.

12 In 1959, Khrushchev and Bulganin had made a triumphant *tour da force* of India which had made it clear to her leaders that changes in the Kremlin henceforth made available to them an alternative source of support in their quest to counteract the strategic implications of America's Pakistan policy

13 See John Kenneth Galbraith, *Ambassador's Journal* (Boston Houghton Mifflin Company, 1969).

14 Ibid, p 320

15 For a comprehensive treatment of Indira Gandhi's foreign policy, see Shashi Tharoor, *Reasons of State Political Development and India's Foreign Policy under Indira Gandhi, 1966-1977* (New Delhi Vikas Publishing House, 1982)

16 Ibid, pp 323-33

17 Ibid, p 306

18 It is well known that Kissinger had "written off" India as a "soft state" that should be accorded secondary status in the hierarchy of American foreign policy priorities. India's response was to pursue increased militarisation, regional hegemony, and related measures that would "harden" her image A measure of the extent of Kissinger's contempt for India was the remark he made to William Saxbe as he departed to become ambassador to India in 1974: "I don't expect to hear from you again!", Kissinger declared (interview with Ambassador Saxbe, July 21, 1983).

19 Gould and Ganguly, Ibid, Chapter 6, p 116.

20 Gould and Ganguly, Ibid, Chapter 7, p 128

21 Gould and Ganguly, Ibid, Chapter 1, p 13.

Maxi Devaluations and Cooper's Hypothesis

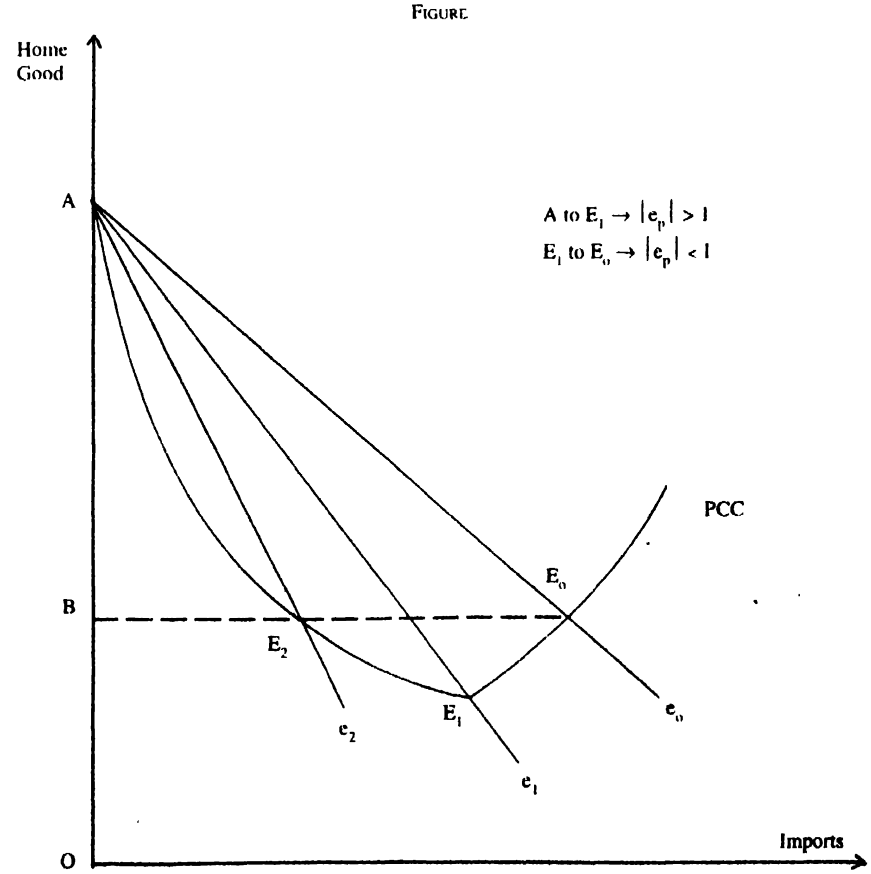
Ravindra H Dholakia

IN a recent paper, Pronab Sen has defended Cooper's contractionary devaluation hypothesis in a very interesting and lucid way ('Cooper's Contractionary Devaluation Hypothesis: A Note', *EPW*, July 27). In the true spirit of macro modelling, he has effectively demonstrated the validity of Cooper's hypothesis with important modifications through the six propositions derived from a simplified macro model. His most important proposition is his Result 4 which states that gross complementarity of home goods and imports in the domestic consumption is the necessary condition for the devaluation to be contractionary. Since it is a distinct (and maybe most likely) possibility to find gross complementarity between the home goods and imports in the domestic consumption in several developing countries, Sen concludes "that 'maxi' devaluations do not always need to be accompanied by contractionary fiscal and monetary policies". Something more is needed to arrive at this conclusion than what is contained in Sen's note

For Sen's policy conclusion to hold, it is necessary to examine the conditions under which the home goods and the imports would remain gross complements throughout the whole range of the exchange rates. Sen does recognise that in a two-commodity world the two goods have to be net substitutes (he calls them Hicks-Allen substitutes). The two goods can become gross complements only when their direct price elasticities are numerically less than unity.[1] This is derived from the well known relationship between the price consumption curve (PCC) and the elasticity of demand. The Figure shows this relationship with a normal U-shaped PCC for imports. The price of imports is taken as the exchange rate 'e' consistent with Sen's framework. As it can be readily seen, on the downward sloping portion of the PCC, the home goods and imports are gross substitutes when the demand for imports also turns out to be price elastic. It is only on the upward sloping part of the PCC when the import demand is price inelastic that the home goods and imports become gross complements. In the Figure, line AE_0 is the price line having the slope of e_0 exchange rate. Similarly, lines AE_1 and AE_2 have the slopes e_1 and e_2 respectively where $e_0 < e_1 < e_2$. If E_0 is the initial point of equilibrium, Sen's analysis shows that any devaluation from e_0 to e_2 can admit a possibility of contractionary effects on the economy. But 'maxi' devaluation is not necessarily restricted only to this range. On the contrary, the concept of maxi devaluation is to ensure that the minimum devaluation required is of the order of e_0 to e_2. It could be more but not less. With any devaluation leading to the exchange rate in excess of e_2, the home goods and imports would turn out to be gross substitutes foreclosing all possibilities of contractionary devaluation as per Sen's analysis. Hence Sen's above-stated conclusion does not hold particularly for the maxi devaluations recommended by the Fund and the Bank.

For Sen's conclusion to hold, however, it is necessary to impose further constraints on the nature of the preference function between the home goods and the imports so that throughout the whole range, the two goods turn out to be gross complements. This requires the PCC to be upward sloping throughout. This can happen only if the possibilities of substitution between the home goods and imports in consumption are limited and not existent beyond a point. In short, we must consider a nation which cannot exist without imports. For such a nation, it is natural to expect a highly inelastic demand for imports throughout the range. This is the case of abnormal demand conditions in relation to the standard Marshallian conditions of normal demand requiring elastic demand at relatively high prices and inelastic demand at relatively low prices [Allen 1986:257-60]. Sen has not explicitly stated the assumption about such abnormal demand conditions prevailing in the nation. Without this condition being explicitly stated in his model, his strong conclusion about the maxi devaluation is not justified. Such abnormal demand conditions for imports are, however, not entirely unrealistic. They may very closely approximate the reality in small island nations. But for several developing countries, say in Africa or Asia or Latin America, these conditions may not be considered very realistic. In all such cases, Sen's conclusion about maxi devaluations would not hold because at high enough devaluation, the possibility of contraction would simply be foreclosed making the demand for imports price elastic. In the case of small island nations where the condition for abnormal import demand is likely to prevail, the very concept of 'maxi' devaluation is not well defined, and even devaluation *per se* may be ill-advised unless exports are highly price sensitive.[2]

FIGURE



How do we accommodate this aspect in Sen's model? Only by specifying the home consumption (HC, to use Sen's notation) function appropriately. If rigidities in preferences have to be incorporated to obtain gross complementarity or gross substitutability between the two commodities throughout the range, the import demand function has to show price elasticity of demand for imports which is either constant or showing contrary to normal behaviour with respect to the exchange rate. Under both these circumstances, the import demand function has to be non-linear in e On the other hand, a generalised specification of the import demand function should allow for the normal behaviour of the price elasticity which can be done through a linear function in e. It is possible to make a choice between these two alternative forms of the demand functions with the help of well established econometric tests.

However, at this stage, it may be pointed out that the set of data available on exchange rates, imports and import prices for most of the developing countries are likely to have some inherent bias arising out of the initial position of inelastic imports with comfortable forex situation. By experience or the 'gut feelings' of the policy-makers, if it is well accepted in a nation that their imports are price inelastic and that devaluation in a narrow range may be contractionary, the most preferred policy would be to revalue the currency in real terms if not in nominal terms. Thus, most of the developing nations were fond of holding their nominal exchange rate fixed irrespective of large positive differences in their inflation rates over those of their major trading partners. This made their real effective exchange rates appreciate considerably. This might have been perceived very beneficial because if devaluations were indeed contractionary, the revaluations would be expansionary by the same logic. However, this situation is obviously not sustainable in the long run when growing trade deficits resulting from the policy of revaluation make the currency so overvalued as to pose a major threat to the monetary and fiscal stability of the system.[1] Sen's analysis of Cooper's hypothesis helps us understand better the rationale for the policy of tacit effective revaluation followed by several developing nations. However, his conclusion that the 'maxi' devaluations may be contractionary, does not come out of his model unless abnormal demand and supply conditions are explicitly considered.

Notes

1 It is important to note that the two goods can be uniquely defined as gross complements only when both the cross price elasticities are negative. This may not always occur [for details see Dholakia and Oza 1996 145n]. On the other hand, Sen unnecessarily recommends that the cross price elasticity obtained from the econometric estimation of the import demand function can serve the purpose for testing gross complementarity! Cross price elasticity in the import demand function is the partial percentage change in the import demand with respect to the price of the home goods, while Sen's model requires the estimate of the other cross price elasticity, viz, the partial percentage change in the demand for home goods with respect to the exchange rate.

2 The aspect of the elasticity of export supply is assumed away by Sen for simplicity and expositional convenience. His conclusion on 'Maxi' devaluation would, however, require this aspect also to be explicitly considered. Thus, it is not only the import demand function but also the export supply function which needs to be estimated.

3 It may be pointed out here that several developing countries had highly overvalued currencies before implementing the 'conditionalities', the rate of overvaluation often being in three digits and sometimes even in four digits (e g, Ghana and Uganda)!

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Homosexuality: Against Hubris

A Suneetha

H SRIKANTH's (*EPW*, April 13) rejoinder to Vimal Balasubrahmanyan (*EPW*, February 3) raises a host of issues related to human sexuality, right to sexual orientation, as well as civil and human rights, which need careful consideration. The attempt made here does not claim to address all the issues and aims only at contesting the various premises on which Srikanth's article is based and outlining its implications for the democratic spirit that underlies the civil liberties movement(s) in India

Reacting to VB's advocacy of the rights of the homosexuals in India and her criticism of the unsympathetic attitude of the Left towards their rights, Srikanth says that every expression of sexuality should be evaluated on the basis of the larger needs of the society for reproduction and as homosexuality in no way contributes to be healthy reproduction of the society, it should be rejected. Consequently, it should not be viewed as a civil liberties issue but as a problem of medical health. Moreover, these persons who give exaggerated importance to their sexual needs rather than to the emancipation of our society are asking for privileges and should be discouraged so as to protect our healthy reproductive practices

The first premise of the article is that of heterosexual behaviour as the only normal sexual behaviour. With this premise Srikanth sets out to examine the reasons for the existence of homosexuality. Defining homosexuals as persons who deviate from the practice of "normal" sexuality due to "biological imbalances" or the lack of "access to healthy heterosexual relations for a long time", or due to the rigidity of the gender categories, he claims that they can be cured of this practice through education, counselling or medical treatment. It can only be a substitute for heterosexual relationships when the latter are not available, but should be discarded as soon as they do become available.

Secondly, he argues that all sexual practices should be guided by the larger needs of the society, i e, the stage of social development. It is the social necessity, i e, reproduction of the species that determines the sexual relations in a society and any expression of sexuality outside the strict needs of reproduction is perverse or "deviant". According to this argument human society has left all the undesirable sexual practices such as polygamy, incest, polyandry as backward and unsuited to its social organisation and has decided on monogamous sexual relations, i e, heterosexual relations within marriage, as the only desirable practice. As such, any support to homosexuality amounts to giving support to such archaic practices as "caste, sati, incest". Apart from the persons who are biologically not suited to heterosexuality, persons who choose homosexuality by choice are "perverts" and pose a great danger to the "normal" monogamous practices, by not centring their sexual behaviour round reproduction.

Consequently, civil libertarians and Marxists who are politically progressive should make efforts to "correct" them. Supporting their claims for rights would amount to legitimising their sexual orientation. Marxists, who should judge everything from the systematic point of view, should treat such practices as harmful to the society and if need arises should not hesitate to use force against them.

I would argue that the 'normality' of the heterosexual practices is a highly constructed one and even granting the 'abnormality' of homosexual practice, they do not deserve the treatment that Srikanth has in store for them. Second, I would argue that the link between sexuality and reproduction is a problematic one. Third, it is pointed out that arguing against homosexuality on the grounds of 'progress' is an absolutely authoritarian.

Construction of 'Normal' Sexuality

The belief that heterosexual behaviour is natural to human beings equates biological sex with the gender of human beings. The role of culture in the making of 'women' and 'men' out of female and male beings is hardly acknowledged. Gender socialisation which starts in infancy continues in all spheres of life and structures the lives of women and men to suit the roles the society has carved out for them. The categories 'men' and 'women' are defined as excluding each other. Their 'biologically' defined gender identities largely determine the expression of sexualities of men and women. The single most important aspect of this gender construction is the subordination of females to males. This subordination is eroticised in many to 'naturalise' as well as 'normalise' the heterosexual behaviour. Women and men are allowed and encouraged to express heterosexual impulses only. Thus among various cultures, the stronger the gender differentiation, the more the structures against homosexually will be.

The definition and construction of sexuality and sexual behaviour is a major component in the subordination of women to men in all patriarchal cultures. It is this linkage between heterosexuality and women's subordination that the radical feminists have pointed out. The choice of lesbianism as a political weapon has to be understood in this context. Though the merits of this choice are open to debate what it makes clear is the oppressive nature of compulsive heterosexuality. Rather than concluding that homosexuality arises due to the inequalities that exist in the heterosexual relationships today as Srikanth argues, they have pointed out that the privileging of heterosexual behaviour plays a major role in obstructing the political bonding among women. Moreover, the separation of homosexuals as a separate category of persons has occurred in the context where capitalism was taking roots, and when the family became an important structural component of emerging capitalist relations. Heterosexual family became the basic unit on which capitalist relations were shaped. Marxist-feminists in the west have extensively analysed these relations between patriarchy and capitalism in the west. Heterosexual relations and the organisation of these relations into families is needed by capitalism for the reproduction of labour power. Similarly, patriarchal subordination of women in families is also necessary to keep the value of women's labour-power low, to use women as a reserve labour force. The rigid boundaries between masculinity and femininity are thus constantly constructed, maintained, naturalised and reinforced and only heterosexuality comes to be considered as 'normal' sexual behaviour. Thus, the concept of homosexual is a relatively recent idea, only hundred years old. As Anthony Giddens points out, "only in the last hundred years has homosexual activity been considered something that a certain type of person does – a category of abnormality and deviance constructed *in opposition* to the category of the 'normal heterosexuality' [Giddens 1989, emphasis added].

Various myths that support this 'deviance' are constructed. The most popular myths are that homosexuals are more sexual, that homosexuals desire to the members of the opposite sex, that a person is either a homosexual or a heterosexual and most potently that homosexuals as a group are psychologically maladjusted, the last of which Srikanth also expresses. Mark Freedman, who has done a comprehensive study on the psychological dimension of homosexual and heterosexual women says "(T)here are no significant differences in rated psychological adjustment between the groups of homosexually oriented and heterosexually oriented women...Nor were the homosexually oriented women any more neurotic or variable in their psychological functioning than the heterosexually oriented control-group members...the homosexually oriented women were functioning significantly better psychological in many areas..." [Petras 1978].

Any discussion of sexuality that intends to propose a unitary mode of 'sexual coexistence' cannot afford to ignore this 'constructedness' of 'monogamousness' of the existing heterosexual relations. And it is in this contest that any discussion on homosexuality should be firmly placed.

That the organisation of sexuality into oppressive heterosexual families is neither of historically immutable reality nor a desirable one is brought home by the protests of persons with homosexual orientation throughout the world today. Homosexuals, gay and lesbian challenge the boundaries imposed by patriarchal social structures on the sexuality of both men and women. By exploring and expressing alternate forms of sexuality that have always been integral part of 'normal', but suppressed human sexuality, they 'normalise' the relationship among men and women.

Relation between Reproduction and Sexual Activity

Apart from the extremely limited conception of sexuality what is more troubling is the authoritarian tone this article adopts towards expression of sexuality in the mask of 'progressivism'. It assumes that men and women should exercise their sexuality only in the interests of procreation and that it should be according to the needs of the society, i e, procreativity (expressed by Srikanth as reproduction). That this 'necessary' relationship posited between sexuality and procreativity is neither necessary nor desirable as such became evident in the course of human history.

Srikanth seems to fear that the society might not be able to reproduce itself if homosexual relationships become dominant. This is implicit in his accusation of Vimal Balasubramanyam that she wants to encourage these practices by advocating homosexual's rights to sexual orientation. Apart from the ill-founded nature of such fear it is his understanding of reproduction which is more troubling.

Homosexual practices always coexisted with heterosexual practices in most cultures and they never hindered the process of biological reproduction. In fact evidence points out that tribes resorted to homosexuality as a measure of population control. There exist some tribes in which homosexuality is institutionalised and coexists with institutionalised heterosexuality.

Coming to reproduction, Srikanth seems to assume that it happens automatically and naturally, with the willing co-operation of women and men in the process of procreation. This unproblematic assumption does not acknowledge the oppression of women that is a constitutive element in the process of human reproduction. Reproduction involves both biological reproduction (child-bearing, that is, biologically done by women) as well as human reproduction (i e. child-rearing, which has been historically done by women but is not 'natural' in the sense of being 'biological'). The reproductive power of women has been historically controlled by men in all patriarchal cultures. It is only in recent times that women have been partially freed from this control due to technological advances in contraception and gained relative autonomy in the exercise of their sexuality. Though this has not given them total autonomy, nevertheless the loosening of the link between reproduction and sexuality constitutes a progressive step for women. This recognised autonomy in fact paved the way for the development of individualistic behaviour and tolerant attitude towards homosexual behaviour too. It would be counterproductive to reimpose this value at this stage of technological development where human beings have moved out of the realm of necessity of the linkage between sexuality and procreation, especially for women.

Similarly, the positing of a societal mode of proper sexual orientation on the assumption that sexuality should be exercised according to the reproductive needs of the society depending upon the stage of development of the human societies can be dangerous in other ways. Religious insti-

tutions apart, since their inception, states have always sought to control the sexuality of women, and in the state-centered societies of many ex colonial countries Asia and Africa it was amounted to go giving control on women's sexuality (also of men belonging to lower socio-economic categories) and reproduction to the dominant interests in the society. The disastrous consequences for women which resulted due to the population policies adopted by many governments in these countries are only too well known.

What is pointed out here is that just when both some women and men are able to break out of the boundaries that patriarchy imposes on the expression of their sexuality as a result of multifarious struggles on all its aspects exposing its various pretentions regarding sexuality and reproduction, it would be reactionary to put the clock back to assume the same pretensions in the name of progress. Srikanth's notion of progress is a linear one that ignores important historical realities Without taking into consideration the complexities involved in sexuality of women and men it would be irresponsible and frivolous to argue against homosexuality on the grounds of backwardness and abnormality.

Is Right to Freedom of Sexual Orientation a Bourgeois Privilege?

As pointed above homosexuality has existed in all cultures and has even been institutionalised in some. Its acceptance and tolerance depended not on societal needs for procreation but on the extent of gender differentiation and acceptance of various various modes of sexual behaviour as part of normal human sexual behaviour. When Vimal Subrahmanyam argues for the rights of the homosexuals what she is pleading for is this acceptance of sexual relations between persons of same sex as normal. A human deprivation is expressed in the language of rights only when it is not recognised as such and is aimed at the removal of such deprivation. When homosexuals protest on the streets what they are fighting for is not that all the heterosexuals should turn into homosexuals but that their sexual orientation should not form the basis for discrimination and deprivation of their rights. They demand that homosexuality be accepted as normal. They demand that a person's sexual orientation be considered a private matter of that individual, a private matter of purely personal choice that does not have any bearing on the other aspects of their lives. Just as a person's heterosexual orientation 'privileges' them to go about life unhindered, a person with homosexual orientation should also be able to live her\his life.

Though Srikanth's arguments aginast the rights of homosexuals on the grounds that it is an imported practice of the decadent bourgeoisie and that it is non-existent among 'working' classes can be easily dismissed as flimsy, his later argument that they do not contribute to social emancipation needs a thorough rebuttal. Apart from the puritanical attitude towards sexual behaviour implicit in this argument what is more problematic is the role he visualises for civil liberties organisations. Admitting that homosexuals should not be deprived of their rights which are constitutionally guaranteed, he says that civil liberties organisations can take up this task but questions VB as to whether she has this in mind when she is asking for their rights. Implicit in this argument is the assumption that the rights of homosexuals can be protected and fought for without questioning the underlying reasons for the deprivation of their rights. It would amount to saying that discrimination against women and dalits can be fought without questioning patriarchy and caste.

Moreover, one should be wary of the argument that gay and lesbian movements do not in any way contribute to social emancipation. We should remember that demands for the rights of women and dalits were met by similar reactions in the beginning on the part of some self-proclaimed marxists in this country. Civil liberties movement which draws its inspiration from the larger democratic movements takes up issues regarding the deprivation and discrimination with the understanding that underlying systems of domination have to be opposed. Whether or not the civil liberties movement in the country takes up the issue of the rights of the homosexuals, asking it to do so in the manner Srikanth prescribes would be surely undermining the spirit of civil liberties in the country.

Just as removing all kinds of discrimination based on 'sex, race, class, sexual orientation, etc', as well as preservation and spread of democratic values is a task of civil libertarians, offering a critique of existing relations has been the task of the leftists, of all varieties. Orthodox varieties of Marxism have been deterministic in their analysis and authoritarian in their politics, and Srikanth's exposition of homosexuality falls exactly into this category and comes dangerously close to the various expressions of 'homophobia' prevalent in the west. That it should come in the guise of 'Marxism', while being Marxist neither in content not in method is unfortunate to say the least. Though it is no secret that 'sexuality' has been a subject of taboo even among the Indian marxists, it comes as a rude shock to find such an ill-informed and authoritarian exposition from a self-proclaimed marxist.

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Trade and Growth: Issues for India

For developing economies, technological change and micro-level efficiency are as important as capital accumulation as a source of long-term economic growth. International trade is an important source of incentives in generating both intentional and by-product technological change by increasing aggregate economic activity (market size) and creating competitive conditions. In the present Indian context, selective policy intervention on the production side may provide a cutting edge in realising dynamic gains through trade. 3121

Reforms and Drug Industry

The oligopolistic nature of the industry, where a few companies have a monopoly within various therapeutic groups, makes the operation of the market particularly infructuous in the drug industry. The present policy of abandoning price and production controls has already led to unjustified rise in prices. These concessions and a possible change in the Indian Patents Act will return the drug industry to the situation prevailing in the 1950s, with the field wide open to the MNCs to earn super-profits through their control over technology and brand images. 3135

South Indian Cinema: New Spaces

In the spectacular spaces carved out by recent South Indian commercial cinema, one is beginning to notice a certain proliferation of popular idioms dealing with political questions, a phenomenon that demands to be seen as part of attempts in different realms to 'manage' the crises of our times. It is because of their direct and innovative engagement with the present that the films of directors like Shankar and Maniratnam have acquired a following that goes beyond the traditional 'class' audience and are coming to include a significant section of average movie-goers. 3129

Reforms and Productivity

Productivity trends in Indian industry over the period 1950-51 to 1992-93 show that there was a severe retrogression in efficiency patterns in the 1960s and 1970s which began reversing themselves only in the 1980s. There has been a further improvement in the 1990s, providing some evidence that the reforms may be working. M-46

Industrial Pricing

Mark-up pricing captures real world industrial pricing behaviour. Since the mark-up is a major component of the inflationary process, understanding variations in it will help to understand inflation. The mark-up is also the profit share and so affects both savings and investment decisions and influences medium-run growth. A study of the relationship between mark-up and activity for disaggregated sectors of Indian industry. M-54

'Good Governance'

We have a fairly sound format of good governance in an active parliament and state legislatures, an independent judiciary, free print media, a constitutionally-guaranteed system of decentralisation and a small but growing and vigilant civil society. But the values which are at the foundation of our republic are under assault through the process of liberalisation. 3109

Clueless on Privatisation

The lack of a comprehensive policy on privatisation stands out in contrast to other aspects of the economic reforms. A look at the possible outcomes of the non-policy on privatisation, focusing on the fiscal, efficiency and intersectoral dimensions. M-63

Survival at Any Cost

Wheeling and dealing has become the stark condition of the survival of the United Front in power. All the parties in the UF are engaged in this activity, with the prime minister emerging as the most consummate practitioner. 3098

Automobile Industry Contrasts

The automobile industry is currently experiencing impressive growth in South Korea, Brazil, China and India. A study of the evolution of the industry in these growing markets and the linkages between government policy, the degree of managerial control and indigenous capabilities and competitiveness. M-75

Small Industry Performance

Examination of the relationship between structure, conduct and performance of small-scale units in the chemical industry based on a study of a sample of units in Gujarat. M-79

LETTERS TO EDITOR

Profit for Few or Food for All

WE are representatives of more than 1,200 organisations from some 80 countries, from all regions of the world. We seek to bring the message of the more than one billion hungry and malnourished people of the world, most of them children and women. Through regional and global consultations we have discovered and affirmed our mutual solidarity. Our collective vision derives from our knowledge that food security is possible. We regret that we will have but four minutes to share this vision with you.

We affirm first and foremost the basic human right to food. Everyone has the right to secure access at all times to safe and nutritious food and water adequate to sustain an active and healthy life with dignity. Neither food nor famine can be used as a national or international political weapon. Access to food cannot be denied to any nation, ethnic or social group for political, economic, religious or other reasons. Economic embargoes or international sanctions affecting populations are incompatible with food security. Those currently in place must be terminated.

The shame of global hunger and malnutrition compels action by all. At the same time, we insist that governments have the primary and ultimate responsibility to ensure national and global food security. The representatives of civil society gathered at the NGO Forum are in full agreement on some of the fundamental causes of food insecurity. The globalisation of the world economy, along with the lack of accountability of transnational corporations and spreading patterns of overconsumption have increased world poverty. Today's global economy is characterised by unemployment, low wages, destruction of rural economies, and bankruptcy of family farmers.

Industrialised agriculture, intensive animal husbandry methods, and overfishing are destroying traditional farming, poisoning the planet and all living beings. Subsidised exports, artificially low prices, constant dumping, and even some food aid programmes are increasing food insecurity and making people dependent on food they are unable to produce. The depletion of global grain stocks has increased market instability, to the detriment of small producers. Family farmers and vulnerable people are forced under International Monetary Fund and World Bank policies to pay the price of structural adjustment and debt repayment. National policies too often neglect these same groups. Official corruption erodes all efforts to achieve food security.

The proliferation of war, civil conflict, and environmental degradation is a growing source of hunger and food insecurity. Hunger and malnutrition are most severe in cases where these combine with natural disasters.

We propose a new model for achieving food security that calls into question many of the existing assumptions, policies and practices. This model, based on decentralisation, challenges the current model, based on a concentration of wealth and power, which now threatens global food security, cultural diversity, and the very ecosystems that sustain life on the planet. We highlight six key elements of this alternative model, along with steps toward its development and implementation. An integrated approach is required, thus simultaneous action is needed in each of these areas: (1) The capacity of family farmers, including indigenous peoples, women, and youth, along with local and regional food systems must be strengthened. All aspects of food and agriculture must be reoriented in favour of family farmers. Women play a central role in food security and must be guaranteed the right to productive resources and equal opportunities to use and develop their skills. Resources must be shifted in favour of local and regional food producers and food systems. Family farmers must be assured access to information and communications systems. (2) The concentration of wealth and power must be reversed and action taken to prevent further concentration. (3) Agriculture and food production systems that rely on non-renewable resources, which negatively affect the environment, must be changed toward a model based on agro-ecological principles. (4) National and local governments and states have the prime responsibility to ensure food security. Their capacity to fulfil this role must be strengthened and mechanisms for ensuring accountability must be enhanced. (5) The participation of peoples' organisations and NGOs at all levels must be strengthened and deepened. (6) International law must guarantee the right to food, ensuring that food sovereignty takes precedence over macro-economic policies and trade liberalisation. Food cannot be considered as a commodity, because of its social and cultural dimension. Negotiations should be carried out to develop more effective instruments to implement the right to food. These instruments should include: A Code of Conduct to govern the activities of those involved in achieving the right to food, including national and international institutions as well as private actors, such as transnational corporations. A Global Convention on Food Security to support governments in developing and implementing national food security plans and to create an international network of local, national, and regional food reserves.

Civil society organisations are committed to ensuring follow-up to this World Food Summit, particularly in monitoring the Food Summit commitments and active participation in the Food for All Campaign. Hunger and malnutrition are fundamentally a question of justice. Unless we agree that the right of very human being to the sustenance of life comes before the quest for profit, the scourge of hunger and malnutrition will continue.

S ANANTHAKRISHNAN

NGO Forum,
World Food Summit,
Rome

Time for a Touch of Boldness

POLICY-MAKERS in the government continue to be preoccupied with the stock market, as though boosting share values would revive industrial output and investment activity. It is apparently ignored that the depression of the capital market is just a symptom of the deeper malady of declining industrial growth. The finance minister and other government functionaries have been prodding foreign institutional investors (FIIs) to come forward with larger amounts of portfolio investment even as the government and the RBI have taken a series of measures directed at the capital market. As part of its busy season credit policy the RBI allowed banks to purchase shares and debentures in the secondary market. Following up the proposal in the finance minister's budget speech, the SEBI has permitted dedicated debt funds of FIIs to subscribe to the whole of a debt issue. It has also taken a number of other measures such as the extension of the BSE's on-line trading (BOLT) system to any other stock exchange with a screen-based trading system and even permitting stock brokers to set up shop in cities without regional stock exchanges. The SEBI has given up vetting offer documents altogether and the minimum application size has been reduced from Rs 5,000 to Rs 2,000. Debt instruments have been allowed to be listed prior to the listing of equity on stock exchanges and mutual funds have been allowed to enter other fund-based business. In its latest measures, the SEBI has conferred on the OTCEI the status of a regular stock exchange and allowed instruments like futures and options, forward contracts on stocks and other forms of forward transactions. Earlier the SEBI had approved in principle the NSE's proposal to start futures and options trading and a committee has been appointed to operationalise the proposal. The SEBI chairman has also announced that a regular stock-lending scheme would be introduced and an expert group would be appointed to work out the modalities of regulating short sales. Speedy action has also been taken to create a share depository system.

Some of these measures were undoubtedly necessary and even overdue, but they are not likely to address the fundamental problem of the capital market of excessive speculation. They are much less likely to push up industrial investment and growth. The authorities refuse to acknowledge that the earlier acceleration of industrial output was the outcome of certain temporary and unsustainable aspects of the liberalisation process and that once their impact had been spent, the slowing down of growth was inevitable. A sustained rise in industrial investment and output calls for equally sustained improvement in domestic saving and investment supported by expansion of domestic demand and growth of manufactured exports. Instead what the economy actually witnessed was the injection of massive external liquidity for a short period of about a year accompanied by some expansionary impulses from middle and upper class consumer spending and from government expenditure during the three years from 1993-94 to 1995-96 when the fiscal situation had deteriorated and larger disbursements were effected for special employment programmes. But these 'favourable' developments could not last long. There occurred a sudden drying up of liquidity, sharp increases in interest rates, tapering off of demand for consumer durables and postponement of many private sector industrial projects due both to shortage of liquidity and high interest rates and to reassessment of business prospects by entrepreneurs. These factors have been compounded by the slowing down of exports and the new finance minister's ideological commitment to containing the gross fiscal deficit this year within 5 per cent of GDP.

Despite the quite sharp dip in domestic saving and investment, the authorities initially refused to take seriously the signs of deceleration of industrial growth and investment. And when the shortage of investible funds became manifest and the primary and secondary capital market went into a tailspin, their immediate response was to turn to the FIIs to come in and inject dynamism in the market. The RBI was also made to release large amounts of liquidity through lowering of banks' cash reserve. While these measures have helped to expand short-term liquidity, they have done little to direct institutional funds to the productive sectors and at a reasonable cost. They have also failed to attend to the other problems of insufficiency of domestic demand in general and of public development expenditures in particular, the slump in domestic saving and investment and entrepreneurs' misgivings about industrial growth prospects. Many of these are longer term issues which cannot in any case be dealt with by short-term palliatives. Nevertheless, the momentum of growth could have been substantially preserved if the authorities had adopted a more positive fiscal and monetary policy stance with a clear commitment to supporting productive investment by commercial enterprises in the public and private sectors and to government development expenditure. There is an acute shortage of funds with the term-financing institutions which consequently have been competing for funds among themselves, in the process pushing up the cost of funds for their industrial borrowers. The Reserve Bank which used to play a promotional role in the past now takes a back seat in providing long-term assistance for industrial development, though the RBI's own reserves have been substantially enlarged by the sharp rise in average interest rates in the economy. The high net profits of the RBI have a contractionary impact on the economy and so there is a sound case for the RBI's reserves

to be used to augment the resources of term-financing institutions.

The RBI will also need to take steps to overcome the current reluctance of banks to make advances, particularly to medium and small units. Left to themselves banks are loath to deploy even the additional liquidity released by reduction of the CRR for commercial lending. They have instead pushed up their investment in government securities, generally expanded their treasury operations and brought down outstanding refinance from the RBI. These tendencies have been encouraged by the RBI's own credit and monetary policy stance which has promoted treasury operations. If bank credit is to provide an impetus to industrial activity, the RBI will have to evolve policies which induce banks not only to expand credit but also achieve a better distribution of bank credit among different sectors. Well designed sector-specific refinance and rediscount facilities in favour of medium and small units and agriculture and the informal sectors are, therefore, more relevant now than ever before. Even large and medium industrial units, many of whom have been hard put to it to raise funds from the capital market, need more working capital and term loans. In this situation if the RBI were to provide funds at the margin at, say, 2 percentage points below the Bank rate of 12 per cent as refinance or rediscount facilities for specific sectors and purposes, it would boost commercial bank lending and also influence the banks' lending rate structure.

Above all, the finance minister needs to give up his obsession with restricting the gross fiscal deficit this year to 5 per cent of GDP. The link between the fiscal deficit and inflation is far from proven. If resources are productively used, the activities promoted through an even larger fiscal deficit can have multiplier effects for the economy. Many developed countries have not hesitated to let government liabilities rise to near 100 per cent of GDP compared to our own less than 60 per cent (taking the centre and states together). There is substantial scope for expanding public sector expenditure programmes provided there is a serious effort to make them more efficient and productive. Against this background, rigid postures on the government's resort to ad hoc treasury bills have a contractionary impact on the economy. On the other hand, conventional deficit financing, properly managed, in the range Rs 10,000 to 12,000 crore a year (or about 1 per cent of GDP) can play a positive role in stimulating economic activity.

ENVIRONMENT

Judiciary's Role

WITH the Supreme Court's increasing involvement with industrial pollution, several issues, nebulous or unstated so far, have been brought into focus and are posing crucial questions before progressive people's movements. The issue of industrial pollution and the hazards posed by manufacturing units made its presence felt with the Union Carbide disaster. With the consequent public awareness and the enactment of several legislations, new or amending old acts of parliament, the courts became far more accessible than they had been before. While the acts have ensured the setting up of relevant authority, the courts in the meanwhile have plunged into the clean-up act wholeheartedly. It isn't that such access to the courts has not yielded results which had hitherto been out of reach of populations which are victims of pollution. However, by and large, it has not succeeded in either strengthening or expanding the existing institutional framework for controlling or monitoring pollution. In the Ganga clean-up case, for instance, the apex court all but directly supervised the implementation of its orders. In another case in 1994, the Supreme Court ordered the payment of compensation to affected villagers in Pattancheru in Andhra Pradesh and obtained an assurance from the state government that it would set up an effluent treatment plant to serve the 22 industrial units in the area. However, it set no time-limits nor any mechanism to ensure that the action would be reported to the Supreme Court. The question here is when the courts issue directives involving technical matters or calling for the setting up of new bodies or authorities, should it not become the responsibility of the court to ensure that its directives are carried out? In the absence of this, the victim population is forced to approach the court again and again and, over a period of time, public actions directed at organising and educating people on environmental security and innovative responses to the problems posed by a necessary industry and unnecessary hazards peter out.

Another issue that has come into sharper focus today is that the courts' decisions often sharpen existing conflicts over the environment. For instance, the apex court's directive to shift industries from Delhi will, when implemented, render thousands of workers jobless or uproot them. Nevertheless, the shifting of polluting industries will effectively render the environment in the city healthier. Not surprisingly, there has been resistance from the workers, though not very organised. What is ironic is that they are as much affected by the pollution. In fact, in all probability most of these polluting industries are likely to be among the more hazardous of working places. But willy-nilly, workers often become ardent supporters of the industry in opposing such efforts without extracting any concessions or promises. In effect, workers see the environment movement and in fact all efforts to protect the environment as necessarily threatening their livelihoods and survival.

Over the decade or so when environmental consciousness has generated a certain amount of action on the part of the government, the labour movement in India has made little headway in incorporating an environmental perspective in the workers' consciousness. Part of the current crisis of the labour movement lies in its inability to see beyond wage-related issues. That this is an old critique does not make it less urgently relevant today. Hitherto the operation of democratically established administrative authority dealing with pollution issues offered greater flexibility with regard to seeking alternative solutions or at least blunting the edge of conflict between the environment groups and workers. Courts' directives, however, provide less opportunity for creative alternative solutions to emerge. And it is in this context that the role of the courts in pollution control and environmental issues needs to be viewed. And equally, the resort to courts, rather than to the organising of public action directed at forcing the appropriate state machinery to take action, it may be argued, will eventually constrict the space for progressive actions. The resort to courts, it would appear, can be seen to be a progressive move only in the context of vibrant people's (including workers') movements, which can translate its directives, whatever they may be, to strengthen and broaden the movement.

POLITICS

Demands for Statehood

THE revival of the Subhash Ghising-led agitation for a separate state of Gorkhaland, which has received a fillip from prime minister Deve Gowda's promise of Uttarakhand, has raised a number of important questions and highlighted interesting developments.

First, the fundamental issue of nationalities and minorities and their right to separate statehood is dividing the Indian Left. In the past, during agitations demanding the creation of states on linguistic basis, the Left stood united in support of such demands. Today, when regional groups like the Uttarakhandis in Uttar Pradesh or predominantly tribal groups like the Jharkhandis in eastern India or the Bodos in Assam are demanding separate states, the CPI(M) and the CPI do not seem to see eye to eye with each other. On the Gorkhaland issue, the CPI(M) is opposed to the further division of West Bengal, while the CPI has lent its support to the demand. Even within the CPI(M), the entire Darjeeling district committee has rallied its followers behind

the call for a separate state and has joined the Subhash Ghising-led agitation, in defiance of the warnings issued by the West Bengal state party leadership. The CPI, a major partner in the West Bengal Left Front, sent its two important leaders, including water resources minister, Nanda Gopal Bhattacharya, to Darjeeling to endorse the demand for Gorkhaland. At the centre, home minister Indrajit Gupta of the CPI assured Ghising of due consideration of his demand when the Gorkha National Liberation Front (GNLF) leader met him in Delhi recently.

While the CPI(M) has made no bones about its total opposition to further division of existing states and creation of new smaller states as a matter of principle and has objected to Deve Gowda's promise of Uttarakhand, the CPI is yet to clarify whether its support to Ghising is a part of a general policy to support similar demands in other areas by other groups or whether its stand on Darjeeling is a tactical one, to spite the CPI(M), which has been behaving like a bully in inter-party relations in West Bengal all these years.

The other issue which has been brought to the fore by the revived Gorkhaland agitation is the concept of 'autonomous councils' and their limitations. These councils were evolved in some states to satisfy the demands made by minority groups there for more administrative powers. The CPI(M) formulated this mechanism for the tribal people in Tripura and the Nepali-speaking population of West Bengal in Darjeeling. Later in Assam, similar autonomous administrative bodies were set up for the Bodos and the Karbis (in the Karbi Anglong area). But such experiments seem to be floundering. In Bodoland, for instance, a Bodoland Autonomous Council was set up in 1993 under an accord between the centre and the Bodo leaders (who were agitating for breaking away from Assam to form a separate state). But the provisions of the accord remained unfulfilled, mainly due to the divide and rule policy followed by the Congress government in Assam. The new AGP government there also appears to be following the same policy by propelling a rival Bodo group – the People's Democratic Front – against the All Bodo Students' Union (ABSU) which had been campaigning for a separate Bodoland since 1987. In Karbi Anglong, the Karbis are complaining about the state government's policy of 'Assamisation' of their culture by insisting on Assamese only as the medium of college education in the Karbi and North Cachar Hill districts. It seems that the Assam government is behaving towards the tribal minorities in its state in the same way as the centre has treated Kashmir (by encroaching on the autonomy granted to it after its accession to India).

In Darjeeling, the picture is slightly different. The hill council there, dominated by Ghising's GNLF, has so far failed to come up with any significant achievement by way of development of the hill areas. There are allegations against Ghising in financial matters, since he has failed to give any statement of expenditure of the money that he has received for the council from the state government.

This raises the next important question. Will separate states *per se* solve the problem of backwardness and underdevelopment in the regions inhabited by minorities of different types, whether ethnic or other? Even if granted full control of a separate state, where is the guarantee that the leaders of these groups will behave in any way different from the dominant political parties of the majority groups? Barring the leaders of the Autonomous State Demand Committee of Karbi Anglong (who have shown political maturity and moral steadfastness), most of the leaders of the various regional movements who have been demanding separate states have quite often exposed their venality in personal dealings, and xenophobia against other minority groups in their own territories. The allegations of bribe-taking against important Jharkhand leaders are an example of the former, while the frequent cases of inter-tribal conflicts (e g, Bodos killing Santhals) in the north-east illustrate the latter. If these leaders come to power in new states, can their poor followers in their own respective communities expect a brighter future or will they watch their leaders using their newly-acquired power for their personal benefit? Can the other minority groups – tribal or linguistic – inhabiting these new states feel safe under administrations controlled by intolerant xenophobic politicians?

Riding piggyback on the aspirations and just grievances of long-neglected minority groups in states who had either remained largely outside the government's poverty-alleviation measures or had been victims of the government's lopsided development policies, the new generation of a sub-elite class that has developed from among them is demanding separate states in the hope of grabbing power and patronage. Once in saddle, they will replicate the same system of exploitation and corruption in the new states that has become endemic in the centre as well as the states.

BJP

Back to Hindutva?

THE euphoria of similar occasions in the recent past was missing at the national executive meeting of the Bharatiya Janata Party (BJP) at Jaipur. The action plan cobbled together on the final day of the three-day meet – centring on the launching, in the latter half of December, of a 'jail bharo' agitation against corruption in high places and the throttling of democracy – is too hackneyed to overcome the setbacks the party has suffered recently in Gujarat, Madhya Pradesh and Uttar Pradesh. The party, which had Delhi almost in its grasp not so long ago, appeared to be returning to the Hindutva issue around which to regroup its support.

The high-point of the Jaipur meeting was the tussle over the policy of so-called social engineering advocated by Govindacharya and Kalyan Singh and opposed vehemently by Murali Manohar Joshi, Kalraj Mishra and Lalji Tandon. Though the report prepared by Govindacharya probing into the poor performance of the party in the UP elections was watered down to assuage the hurt feelings of the rival group, Govindacharya's remarks as the head of the five-member committee appointed by L K Advani ruffled many feathers. According to Govindacharya, at least a couple of dozen seats, and many of them in the Allahabad region especially, were lost due to the wrong choice of candidates. These remarks sparked off stormy scenes with Joshi, who represents the Allahabad region in parliament, voicing his disagreement with the assessment. According to the Joshi, Mishra and Tandon group, it is the policy of social engineering aimed at bringing dalits and the most backward castes closer to the party by giving them a larger share of party tickets that was the main cause of BJP's poor performance. Though the OBCs were given one-third of the seats, the party was able to win few of them. Of the 176 seats won by the BJP-Samata alliance, 95 were won by brahmin, rajput, jat, bhumihar, bania and kayastha candidates. In the tribal belt, the BJP managed to secure just one seat, while Mulayam Singh's Samajwadi Party and Kanshi Ram's Bahujan Samaj Party were able to win 20 and 12 seats, respectively. The national executive meeting clearly saw the reassertion of Hindutva over mandalisation.

This shift of opinion within the party leadership has also the support of the RSS chief, Rajendra Singh, who in his Dussera rally admonished the BJP for straying away from the path of Hindutva. The strengthening of the grip of the Hindutva lobby over the party affairs can be gauged from the fact that S P Gautam and J P Mathur, both Rajya Sabha MPs of the BJP from UP who are known to favour social engineering, have been denied tickets. The VHP too has chided the BJP for forsaking the cause of Hindutva and declared its intention to revive the issue of Krishna Janmabhoomi at Mathura. The decision to postpone the organisational polls in Gujarat and Madhya Pradesh is yet another indication that the social engineering strategy has left the BJP in a bit of a quandary.

CURRENT STATISTICS

EPW RESEARCH FOUNDATION

Macro-economic trends portray generally a disappointing performance in almost all sectors of the economy. Real sector growth is expected to stagnate or decelerate mainly due to reduced growth impulse from the government budget. Domestic saving and investment ratios will barely reach the levels of 1990-91 Export-import growth may slump to very low levels. Capital market is slated to remain depressed. Monetary growth may accelerate but without impetus to domestic credit growth Inflation rate may remain high, in the range of 8 to 10 per cent.

Macroeconomic Indicators

Index Numbers of Wholesale Prices (1981-82 = 100)	Weights	Nov 9, 1996	Variation (Per Cent): Point-to-Point: Over Month	Over 12 Months: Latest	Over 12 Months: Previous	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
All Commodities	100.0	319.1	0.5	6.5	8.6	6.5	5.1	5 0	10.4	10.8	7.0
Primary Articles	32.3	334.3	1 0	7.4	9.0	8.6	6.6	5.4	12.7	11.5	3.0
Food Articles	17.4	383.7	2.4	10.5	9 2	11.3	10.6	9.8	11.9	4.4	5.4
Non-Food Articles	10.1	333.7	–1.5	2.9	9.2	5.1	0.2	–1.9	15.5	24.9	–1.4
Fuel, Power, Light and Lubricants	10.7	332.9	0.9	17.1	1.0	12.8	–0.1	3.7	2.4	13.1	15.2
Manufactured Products	57.0	308.0	0 2	4.0	9 9	4.2	5.2	5.0	10.7	9.9	7.9
Food Products	10.1	306.4	–0.4	8.3	5.0	13.2	3.9	–0.7	8.1	12.3	6.8
Food Index (computed)	27.5	355.3	1.5	9 8	7.9	11.9	8.3	6.3	10.6	7.0	5.8
All Commodities (Average Basis) (April 6-November 9, 1996)	100.0	311.0	-	5.6	9.8	5.7	9.0	7.8	10.9	8.3	10.1

Cost of Living Indices	Latest Month	Variation (Per Cent): Point-to-Point: Over Month	Over 12 Months: Latest	Over 12 Months: Previous	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
Industrial Workers (1982=100)	344[9]	0.3	8.5	10.1	7.8	8.2	8 9	9 7	9.9	6.1
Urban Non-Man Emp (1984-85=100) (for 1995-96)	263[10]	0.8	9 6	10.1	7.8	8.1	-	9.9	8.3	6.8
Agri Lab (1986-87=100) (Link factor 5.89)	256[8]	1.6	7.1	14.4	8.0	8.1	7.2	11.1	11.2	0.6

Money and Banking (Rs crore)	Oct 25, 1996	Variation: Over Month	Fiscal Year so far: 1996-97	Fiscal Year so far: 1995-96	1995-96	1994-95	1993-94
Money Supply (M_3)	646549	7135 (1.1)	44713 (7.4)	30271 (5.7)	70410 (13 2)	79241 (17.5)	73307 (19 3)
Currency with Public	123546	3852 (3.2)	5385 (4.6)	12265 (12.2)	17480 (17.4)	18698 (22.8)	14170 (20.9)
Deposits with Banks	515700	1976 (0.4)	35365 (7.4)	15450 (3.6)	52973 (12.4)	59685 (16.2)	57925 (18.7)
Net Bank Credit to Govt	276960	3990 (1.5)	19550 (7.6)	20623 (9.3)	34991 (15.7)	16328 (7.9)	28855 (16.3)
Bank Credit to Comml Sector	346848	4643 (1.4)	5946 (1.7)	17846 (6.1)	48179 (16.5)	48059 (19.6)	17161 (7.5)
Net Foreign Exchange Assets	86542	1827 (2.2)	9385 (12.2)	536 (0.7)	–628 (–0.8)	25159 (47.8)	27674 (110.9)
Reserve Money (Nov 1)	186592	–560 (–0.3)	–7744 (–4.0)	16598 (9.8)	25054 (14.8)	30611 (22.1)	27892 (25.2)
Net RBI Credit to Centre (Nov 1)	123307	–2962 (–2.3)	4539 (3.8)	16728 (16.9)	19855 (20.1)	2130 (2.2)	260 (0 3)
Ad hoc Treasury Bills (Nov 8)	36290	4260	6845	12100	5965	1750	6300
Scheduled Commercial Banks (Nov 8)							
Deposits	465217	2495 (0.5)	31397 (7.2)	10820 (2.8)	46961 (12 1)	53629 (16.1)	52144 (18.6)
Advances	256556	3071 (1.2)	2541 (1.0)	16802 (7.9)	42455 (20.1)	40638 (23.8)	11566 (7 3)
Non-Food Advances	247596	2488 (1.0)	3372 (1.4)	16349 (8.2)	44938 (22.5)	37798 (23.4)	8875 (5.8)
Investments	180604	3436 (1.9)	15821 (9.6)	5701 (3.8)	15529 (10.4)	14171 (10.5)	28641 (26.9)

Index Numbers of Industrial Production (1980-81=100)	Weights	July 1996	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	Average for Full Fiscal Years: 1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
General Index	100.0	285.1	283.1(9.3)	259.1(12 3)	284.3(12.1)	253.7(9.4)	232.0(6.0)	218.9(2.3)	213.9(0.6)	212.6(8.2)
Mining and Quarrying	11.5	243.0	247.7(1.8)	243.4(15.4)	265.9(6.9)	248.8(7.5)	231.5(3.5)	223.7(0.6)	222.5(0.6)	221.2(4.5)
Manufacturing	77 1	282.8	279.3(11.7)	250.1(11.9)	278.8(13.6)	245.4(9.8)	223.5(6.1)	210 7(2.2)	206.2(–0.8)	207.8(9.0)
Electricity	11.4	343.0	344.1(2.5)	335.8(12.5)	340.3(8.2)	314.6(8.5)	290.0(7.4)	269.9(5.0)	257.0(8.5)	236.8(7.8)

Capital Market	Nov 22, 1996	Month Ago	Year Ago	1996-97 So Far: Trough	1996-97 So Far: Peak	1995-96: Trough	1995-96: Peak	End of Fiscal Year: 1995-96	1994-95	1993-94
BSE Sensitive Index (1978-79=100)	2966(-1.2)	3227	3002(–26 5)	2966	4069	2826	3584	3367(3.3)	3261(–13.7)	3779(65.7)
BSE 100 (1983-84=100)@	1323(–3.4)	1431	1370(–29.9)	1321	1843	1304	1691	1549(–3.5)	1606(–12.2)	1830(79.2)
BSE-200 (1989-90=100)	294(–2.6)	316	302(–35.3)	294	413	289	385	345 (–6.3)	368(–18.2)	450(92.3)
NSE (Nov 3, 1995=1000)	850	919	na	850	1196	na	na	na	na	na
Skindia GDR Index (Apr 15, 1994=100)	60.2(–6.9)	64.4	64.6(–34.3)	56.0	90.0	61.6	87.9	78.5(0.7)	78.0	na

@ Renamed index since Oct 14, 1996, compared with the earlier National Index (1983-84=100)

Foreign Trade	September 1996	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93	1991-92
Exports: Rs crore	9277	56801 (20.9)	46973 (25.3)	106465 (28.8)	82674 (18.5)	69751 (29.9)	53688 (21.9)	44042 (35.3)
US $ mn	2596	16150 (9.1)	14805 (23.8)	31831 (20.9)	26331 (18.4)	22238 (20.0)	18537 (3.8)	17866 (–1.5)
Imports Rs crore	10269	63182 (14.5)	55158 (35.1)	121647 (35.2)	89971 (23.1)	73101 (15.3)	63375 (32.4)	47851 (10.8)
US $ mn	2874	17964 (3.3)	17384 (33.6)	36370 (26.9)	28654 (22.9)	23306 (6.5)	21882 (12.7)	19411 (–19.4)
Non-POL US $ mn	2142	13548 (–5.1)	14271 (37.7)	28822 (26.8)	22727 (29.5)	17552 (11.2)	15782 (12.3)	14047 (–22.2)
Balance of Trade: Rs crore	–992	–6381	–8185	–15182	–7297	–3350	–9687	–3809
US $ mn	–277	–1814	–2580	–4539	–2324	–1068	–3345	–1545

Foreign Exchange Reserves (excluding gold)	Nov 15, 1996	Nov 17, 1995	Mar 31, 1996	Variation Over: Month Ago	Year Ago	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
Rs crore	69770	60551	58726	2551	9219	11044	–5477	–7302	18402	27430	5385
US $ mn	19478	17498	17126	621	1980	2352	–3318	–3690	5640	8724	731

Notes: (i) Superscript numeral denotes month to which figure relates, e g, superscript 9 stands for September. (ii) Figures in brackets are percentage variations over the period specified or over the comparable period of the previous year. na = not available.

Macro Economic Indicators and Trends

(Rupees in crore)

	1996-97@	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91	1989-90	1988-89	1987-88	1986-87	1985-86
OUTPUT INDICATORS												
GDP at Factor Cost (1980-81 prices)	283062	266537	251010	236064	224887	213983	212253	201453	188461	170322	163271	156566
Per cent growth	6.2	6.2	6.3	5.0	5.1	0.8	5.4	6.9	10.6	4.3	4.3	4.1
Domestic Savings												
(at current prices) (Rs)	296400	248400	230648	171184	149365	140647	126652	101539	84668	69631	54801	51933
Per cent of GDP	24.0	23.0@	24.4	21.4	21.2	22.8	23.6	22.2	21.4	20.9	18.7	19.8
Investment (GDCF)												
(at 1980-81 prices) (Rs)	80981	72977	69848	54361	54767	52054	60878	52323	49857	42657	36259	36641
Per cent of GDP at 1980-81 prices	25.6	24.5@	24.9	20.6	21.7	21.6	25.3	23.0	23.4	22.0	19.6	20.7
Index of Agrl Prod												
(Triennum 1980-81=100)	169.6	163.1	164.6	156.8	151.5	145.8	148.4	144.0	141.7	116.7	115.8	120.6
Per cent increase	4.0	–0.9	5.0	3.5	3.9	–1.8	3.1	1.6	21.4	0.8	–4.0	–
Index of Ind Prod (1980-81=100)	305.1	283.8	253.7	232.0	218.9	213.9	212.6	196.4	180.9	166.4	155.1	142.1
Per cent increase	7.5	11.9	9.4	6.0	2.3	0.6	8.2	8.6	8.7	7.3	9.1	–
EXTERNAL SECTOR												
Export US $mn	35014	31831	26331	22238	18537	17866	18145	16612	13970	12088	9745	8905
Per cent increase	10.0	20.9	18.4	20.0	3.8	-1.5	9.2	18.9	15.6	24.0	9.4	–
Import US $mn	38189	36370	28654	23306	21882	19411	24073	21219	19497	17156	15727	16067
Per cent increase	5.0	26.9	22.9	6.5	12.7	-19.4	13.5	8.8	13.6	9.1	–2.1	–
Foreign Exch.Reserves												
(excl.Gold) US $mn	17000	17126	20816	15176	6452	5721	2338	3475	4329	5715	6103	6103
Exchange Rate:Re/US $ (March 31)	36.00	34.35	31.50	31.37	31.24	31.23	19.64	17.32	15.66	13.03	12.87	12.39
REER (1985=100) (March)	60.0	61.8	63.2	63.55	59.15	64.24	74.69	78.7	77.52	84.56	84.73	92.13
NEER (1985=100) (March)	39.0	39.5	41.43	44.99	44.94	49.89	64.08	72.52	73.43	79.82	82.19	92.01
PUBLIC FINANCE												
Total Expenditure												
(Centre+States) (Rs)	336739	307702	270506	232649	203043	185905	163673	145137	128245	111161	101602	78627
Per cent to GDP	27.3	28.5	28.6	29.0	28.8	30.1	30.6	31.8	32.4	33.4	34.7	30.0
of which Centre (Rs)	210577	188492	165205	146050	126063	114483	107994	95226	77115	66834	61558	53808
Per cent to GDP	17.1	17.5	17.5	18.2	17.9	18.6	20.2	20.8	19.5	20.1	21.0	20.5
Develop Expend (Centre+State) (Rs)	176470	167507	148364	129446	118202	109372	98686	89386	78983	69087	64441	50509
Per cent to GDP	14.3	15.5	15.7	16.2	16.8	17.7	18.4	19.6	20.0	20.7	22.0	19.3
of which Centre (Rs)	95950	87227	83029	72464	65479	59313	58645	54207	41536	36573	35498	32909
Per cent to GDP	7.8	8.1	8.8	9.0	9.3	9.6	11.0	11.9	10.5	11.0	12.1	12.5
Centre-Total Liabilities (Rs)	670224	605710	538611	477968	401924	354662	314558	268192	229771	195561	166546	137484
Per cent to GDP	54.3	56.1	57.0	59.7	57.0	57.5	58.7	58.7	58.1	58.7	56.9	52.4
Internal Liabilities (Rs)	615322	553044	487682	430623	359655	317714	283033	239849	204025	172338	146247	119331
Per cent to GDP	49.8	51.2	51.6	53.8	51.0	51.5	52.9	52.5	51.5	51.7	49.9	45.5
External Liabilities (Rs)	54902	52666	50929	47345	42269	36948	31525	28343	25746	23223	20299	18153
Per cent to GDP	4.4	4.9	5.4	5.9	6.0	6.0	5.9	6.2	6.5	7.0	6.9	6.9
States-Total Liabilities (Rs)	243160	212972	184378	160075	142178	126338	110289	94224	79496	68523	59373	53660
Per cent to GDP	19.7	19.7	19.5	20.0	20.2	20.5	20.6	20.6	20.1	20.6	20.3	20.5
States liabilities excl.centres												
advances (Rs)	92468	79720	67694	58130	47766	42847	36172	30085	23511	19223	15905	13874
Per cent to GDP	7.5	7.4	7.2	7.3	6.8	6.9	6.8	6.6	5.9	5.8	5.4	5.3
MONEY AND BANKING (ANNUAL VARIATIONS)												
M_1 (Rs)	32154	22106	28858	31562	10390	20898	13366	15290	12553	7039	7421	4180
Per cent	15.0	11.5	18.2	24.1	8.6	20.9	15.5	21.5	21.4	13.7	16.8	10.5
M_3 (Rs)	102312	70410	78617	73307	50916	50359	38419	38939	35970	22643	22238	16322
Per cent	17.0	13.2	17.7	19.4	15.6	18.2	16.1	19.5	22.0	16.1	18.7	10.5
Domestic Credit (Rs)	71797	83170	73450	36953	48844	35788	45249	44822	38179	25096	25637	19828
Per cent	12.0	16.1	16.6	9.1	13.7	11.2	16.5	19.5	19.9	15.0	18.2	16.3
Sch Com Bank Deposit (Rs)	75918	46961	53629	52144	39017	37294	29333	28281	28907	15315	17234	13133
Per cent	17.5	11.8	16.1	18.6	16.1	18.2	16.7	19.2	24.4	14.9	20.1	18.1
Credit (Rs)	30482	42455	40638	11566	23757	12164	16770	17295	17121	7492	7715	7869
Per cent	12.0	20.1	23.8	7.3	17.5	9.9	15.7	19.4	23.7	11.6	13.5	16.0
Investment (Rs)	23069	15529	16731	25875	16820	13751	10887	9499	8702	8118	8276	5666
Per cent	14.0	10.4	12.6	24.3	18.7	18.1	16.7	17.1	18.5	20.9	27.1	22.7
CAPITAL MARKET												
BSE Sensex Index (1978-79=100)	3100	3367	3261	3779	2282	4285	1168	781	714	398	510	574
Per cent variation	–8.0	3.3	–13.7	65.6	–46.7	266.9	49.6	9.4	79.4	-22.0	–11.1	–
Capital Issues (Rs)	12000	16371	26440	19355	19826	5757	4312	6473	3164	1749	2560	1647
Per cent variation	–26.7	–38.1	36.6	–2.4	244.4	33.5	–33.4	104.6	80.9	–31.7	55.4	–
Assistance by Term-lending												
Institution Sanctions (Rs)	75923	67788	59645	41324	33565	23119	18414	15405	13667	8850	7892	6613
Per cent variation	12.0	13.7	44.3	23.1	45.2	25.6	19.5	12.7	54.4	12.1	19.3	–
Disbursal (Rs)	46180	39136	33558	26599	23107	15889	11777	9661	9065	6670	5656	4921
Per cent variation	18.0	16.6	26.2	15.1	45.4	34.9	21.9	6.6	35.9	17.9	14.9	–
INFLATION												
Wholesale Price Index (1981-82=100)												
(Average)	319.5	295.8	274.5	247.6	228.7	207.9	182.7	165.7	154.3	143.6	132.7	125.4
Per cent increase	8.0	7.8	10.9	8.3	10.0	13.8	10.3	7.4	7.5	8.2	5.8	–
CPI for Industrial Workers (1982=100)												
(Average)	344	313	284	258	240	219	193	173	163	149	137	126
Per cent increase	10.0	10.2	10.1	7.5	9.6	13.5	11.6	6.1	9.4	8.8	8.7	6.8

@ Some of these are annualised/expected projections based on informed judgement, except fiscal data which are as per budgets; saving and investment ratios for 1995-96 are also similarly projected.

JCT

New Projects Shelved

AFTER considerably improving its performance in 1994-95, JCT, an M M Thapar group company, saw a drastic fall in profitability in 1995-96. The company is engaged in the manufacture of cloth, polyester staple fibre (PSF), nylon filament yarn (NFY), polyester filament yarn (PFY), polyester chips, partially oriented yarn (POY), nylon chips and steel/strand wires. While net sales increased by 10 per cent and value of production improved by 14.7 per cent over the previous year, a sharp rise in manufacturing expenses (up 33.5 per cent) and other operating expenses led to a steep decline in operating profit (down 45.1 per cent). Though interest charges fell by 11.2 per cent (despite an 81.4 per cent increase in term loans), a 31.7 per cent rise in depreciation resulted in a 72.7 per cent fall in net profit during the year under review. But for a large net non-operating income of Rs 21.4 crore (1994-95: Rs 6.2 crore), which accrued mainly from the sale of investments, and nil taxation, the company would have gone into the red. Further, other income stood at Rs 49.3 crore and formed 275 per cent of net profit.

The textile division, which contributed 27 per cent of the company's turnover, saw a 3 per cent fall in production of cloth during 1995-96. Sale, however, was higher by 1.9 per cent in volume terms at 5,69,64,000 metres. The synthetic fibre division, which contributed 55 per cent of the company's turnover, also performed poorly. Production of PFY and PSF was also lower at 3,092 tonnes and 27,893 tonnes, respectively, due to stoppage of operations at the plant for enhancement of capacities. There was a sharp fall in prices of PSF during the year under review following the sudden withdrawal of China from the international market, and these were only partly offset by a corresponding reduction in raw material prices.

The steel division, which accounted for 8.6 per cent of total turnover, managed a 11.2 per cent increase in sales during the year under review and launched its strand wires into the market for the first time.

The company's exports fell from Rs 83 crore in the previous year to Rs 81 crore while imports, consisting of raw material and capital goods in equal parts, rose significantly by 143 per cent to Rs 288.3 crore.

The state of the industry has not improved in the current year. The company has shelved its Rs 600 crore PSF project, which was expected to be commissioned during this year, due to depressed market prices and high cost of manufacture. Though JCT had already firmed up a Rs 200 crore credit line from Hermes Export Finance Agency of Germany, the company was unable to garner adequate funds from Indian lenders. The Rs 1,700 crore purified terephthalic acid (PTA) project, which would have catered to a significant part of the company's raw material requirement, has also been shelved. JCT had already entered into a tie-up with Zimmer, a German petrochemical giant, for technical collaboration in the PSF project while the PTA project was to be set up in collaboration with the Japanese petrochemical giants, Mitsubishi-Mitsui.

With the fall in earnings per share (EPS) from Rs 5.5 in 1994-95 to a mere Rs 1.5 in 1995-96, the company's share price has declined to Rs 8.5 on the bourses. The low discounting of 5.7 times the company's 1995-96 earnings also reflects the state of the synthetic fibre industry as a whole.

PREMIER AUTOMOBILES

Modernised Plant

Premier Automobiles (PAL), manufacturer of Fiat and 118NE cars, saw a mixed performance during the 18 months ended March 31, 1996. While net sales improved by 3.8 per cent and value of production was higher by 7.8 per cent over the previous period (18 months ended September 30, 1994), net profit fell by 32.3 per cent. However, a 7.7 per cent fall in manufacturing expenses and an overall fall in other operating expenses led to an increase in operating profit from Rs 12.7 crore to Rs 77.7 crore. The absence of any non-operating profit compared to a non-operating profit of Rs 77.6 crore in the previous period following the sale of a plant resulted in a lower bottomline. There was only a marginal rise in interest charges and a 26.7 per cent fall in depreciation charges. The company's term loans were lower by 59.75 per cent following repayment with cash received from the sale of the Kalyan plant. The company also received 840 lakh equity shares of Rs 10 each aggregating Rs 84 crore of Pal Peugeot (PPL) as part consideration for the above mentioned plant.

Though production of automobiles during the year fell by 16.8 per cent from 36,136 vehicles to 30,066 vehicles, the boom in the automobile industry helped the company attain a growth of 32 per cent in sale of its Padmini model cars (both diesel and petrol) from 22,842 last year to 30,078 in 1994-96. Though the company has transferred its Kalyan business, where 118NE/1.38D cars were produced, to PPL last year, it continues to supply various components required by PPL for the manufacture of the 118NE.

The company's machine tool division too improved its performance with a 108 per cent rise in sales at Rs 58 crore. Sales would have been higher but for tight liquidity. The division has entered into a technical know-how agreement with Hermann Pfauter of Germany to manufacture CNC gear hobbing machine Model PE 250 in India and commercial production is expected to commence shortly.

Following the agreement with Fiat Auto, Italy, for the manufacture of UNO model cars, the company's Kurla plant is being completely modernised for establishing state-of-the-art manufacturing facilities which will also be usable for Padmini cars. The company plans to reduce dependence on imports and indigenise the components of the UNO car. It has already succeeded in indigenising wheels, wheel caps, jacks, seats, tyres, horns, batteries, etc, and steps have been taken to achieve an indigenisation of around 40 per cent by end-December.

The strike at the company's plants seems to have ended with most of the workers resuming duty in the past few days. Workers have also resumed work at PPL's plants at Dombivili and Kalyan.

With the fall in profitability during 1994-96, the company's EPS fell from Rs 12 last year to Rs 8.1. The company's falling bottomline has resulted in a fall in the company's market price from Rs 63 a year ago to Rs 26 on the bourses, discounting the company's annual earnings by a mere 3.2 times.

LLOYDS STEEL INDUSTRIES

Higher Turnover

Lloyds Steel, part of the 2000-crore Lloyds group, saw a sharp increase in turnover in 1995-96 following the first full year of operation of its hot rolled (HR) coil plant and the commissioning of its new plants for cold rolled (CR), galvanised plain (GP) and galvanised corrugated (GC) coils/sheets in December 1995. The company's main business consists of manufacturing HR coils/plates/sheets (carried out under the steel division) and the fabrication of machinery and structurals (carried out under the engineering division). While the former division contributed up to 68.2 per cent of the company's turnover for the year under review, the latter contributed the balance 31.8 per cent.

During the year, the HR coil plant managed to attain an 86 per cent capacity utilisation, producing 3,45,788 metric tonnes (mts) of coils against 1,44,527 mts produced in the previous year when the plant operated for six months only. Sale revenue too increased from Rs 226 crore in the previous year to Rs 668 crore, up 48 per cent on an annualised basis. The higher realisation was due to the company's strategy of deeper penetration into the value added product segments and niche markets and the opening of additional branches to strengthen its marketing network.

(Rs lakh)

Financial Indicators	JCT		Premier Automobiles		Lloyds Steel Industries	
	March 1996	March 1995	March 1996	March 1995 (18 months)	March 1996	March 1995
Income/appropriations						
1 Net sales	72211	65605	54657	52635	87836	39147
2 Value of production	75003	65416	55584	51570	98645	45818
3 Other Income	4933	4376	3469	1161	263	184
4 *Total income*	79936	69792	59053	52731	98908	46002
5 Raw materials/Stores and spares consumed	46466	36653	33709	36343	50682	26404
6 Other manufacturing expenses	13010	7904	1159	1446	12780	5841
7 Remuneration to employees	5067	4401	12120	9028	1242	598
8 Other expenses	8093	7535	4295	4642	9026	3849
9 *Operating profit*	7300	13299	7770	1272	25178	9310
10 Interest	4267	4807	4590	4550	10161	2973
11 *Gross profit*	5173	9114	3135	4484	15161	8803
12 Depreciation	3386	2571	1288	1758	3884	1752
13 *Profit before tax*	1787	6543	1844	2725	11264	7051
14 Tax provision	–	–	–	–	–	–
15 *Profit after tax*	1787	6543	1844	2725	11264	7051
16 Dividends	928	2156	408	340	1470	1279
17 Retained profit	859	4387	1436	2385	9794	5772
Liabilities/assets						
18 Paid-up capital	12560	12060	2269	2269	11713	8048
19 Reserves and surplus	62786	62575	9340	8022	46950	28021
20 Long term loans	32799	21820	3033	11230	43409	44964
21 Short term loans	26356	10796	4645	7848	51395	26797
22 Of which bank borrowings	23531	8264	1390	7848	29126	13245
23 Gross fixed assets	105980	78999	24789	19912	114837	90032
24 Accumulated depreciation	21009	17148	9933	9164	6769	2744
25 Inventories	19469	19573	10512	8087	28316	18199
26 Total assets/liabilities	157533	128710	101640	56332	182552	136481
Miscellaneous items						
27 Excise duty	12582	11631	17131	20381	10094	3742
28 Gross value added	12312	14983	17275	25385	24607	14705
29 Total foreign exchange income	8167	8328	372	202	1398	37
30 Total foreign exchange outgo	30054	13003	3027	2916	8314	9122
Key financial and performance ratios						
31 Turnover ratio (sales to total assets) (%)	45.84	50.97	53.78	93.44	48.12	28.68
32 Sales to total net assets (%)	53.69	61.17	283.39	179.22	57.23	36.30
33 Gross value added to gross fixed assets (%)	11.62	18.97	69.69	127.49	21.43	16.33
34 Return on investment (gross profit to total assets) (%)	3.28	7.08	3.08	7.96	8.31	6.45
35 Gross profit to sales (gross margin) (%)	7.16	13.89	5.74	8.52	17.26	22.49
36 Operating profit to sales (%)	10.11	20.27	14.22	2.42	28.66	23.78
37 Profit before tax to sales (%)	2.47	9.97	3.37	5.18	12.82	18.01
38 Tax provision to profit before tax (%)	–	–	–	–	–	–
39 Profit after tax to net worth (return on equity) (%)	2.37	8.77	15.88	26.48	19.20	19.55
40 Dividend (%)	7.50	20.00	18.00	15.00	15.00	25.00
41 Earning per share (Rs)	1.48	5.47	8.13	12.01	9.62	8.76
42 Book value per share (Rs)	55.44	54.82	38.83	32.50	50.08	44.82
43 P/E ratio (based on latest and corresponding last year's price)	5.74	5.30	3.20	5.25	1.25	3.60
44 Debt-equity ratio (adjusted for revaluation) (%)	49.02	33.23	34.43	152.29	74.00	124.66
45 Short term bank borrowings to inventories (%)	120.86	42.22	13.22	97.04	102.86	72.78
46 Sundry creditors to sundry debtors (%)	109.86	106.23	83.93	248.22	140.47	104.26
47 Total remuneration to employees to gross value added (%)	41.15	29.37	70.16	35.56	5.05	4.07
48 Total remuneration to employees to value of production (%)	6.76	6.73	21.80	17.51	1.26	1.31
49 Gross fixed assets formation (%)	34.15	97.25	47.36	–48.05	27.58	37.66
50 Growth in inventories (%)	–0.53	75.56	29.99	–36.31	55.59	491.07

The GP/GC sheets/coils plant, during its first four months of production, produced 34,689 mts of sheets and coils which were marketed through the company's existing network. Sales from the new plant contributed 3.7 per cent to the company's turnover and is expected to add over Rs 100 crore to turnover in the current year. The buoyancy in the capital goods industry in the previous year and the execution of orders secured then helped the engineering division post a 54 per cent higher turnover at Rs 311.3 crore in 1995-96.

While value of production increased by 115.3 per cent with increased production and sales during the year under review, a lower increase in operating expenses helped the company post a 170 per cent increase in operating profit. However, a lower non-operating profit of Rs 1.44 crore (1994-95: Rs 24.7 crore) and a sharp increase in interest (up 241.8 per cent) and depreciation charges (up 121.7 per cent) somewhat nullified the earlier increase in profitability. Consequently, net profit rose by a lower 59.8 per cent. The sharp increase in interest charges was mainly due to the full year's interest on borrowings for the HR coils project being charged to profit and loss account, as against capitalisation of interest up to commissioning of the project until the previous year. The need for a larger working capital and the high interest rates prevailing also added to the company's problems.

With a view to consolidating its position in the steel industry, the company had earlier undertaken a massive forward integration programme in two phases. The first phase for setting up a 1,50,000 tonnes per annum (tpa) of CR coils and 1,25,000 tpa of GP/GC sheets/coils was completed during the year under review and the second phase which consists of setting up facilities for 2,00,000 tpa of CR coils is expected to be completed in the current year.

Meanwhile, during the current year, a 3 to 8 per cent cut in customs duty on the end products and the increase in administered prices of major inputs such as coal, fuel, power and transport is expected to put pressure on the company's margins. Slack international prices, increased supply and competition also prevent the company from passing on the increased input cost to customers in the immediate future.

Despite its growth plans, the company's share price seems to have suffered following its frequent forays into the capital market. The Rs 210 crore rights issue, which opened on March 27 this year, devolved and the company was able to raise its balance funds only with the help of underwriters. The huge dilution in earnings that is expected after allotment and conversion of warrants will bloat the company's equity to a significant extent. Consequently, despite an increase in earnings per share from Rs 8.8 in 1994-95 to Rs 9.6 in 1995-96, the company's share price currently languishes at a mere Rs 12 on the bourses.

NEW DELHI

UF Government: Survival at Any Cost

BM

Wheeling and dealing has become the stark condition of the survival of the UF in power. All the parties in the UF are engaged in this activity, with the prime minister emerging as the most active practitioner.

THE leaders of the left parties are very fond of proclaiming from time to time that the Congress Party, the second largest party in Lok Sabha, has no option but to support the UF government headed by Deve Gowda. They obviously like to feel smug and secure about the stability of the government so that they can be comfortable under its benign patronage Harkishen Surjeet of CPI(M), which is supporting the government from outside like the Congress Party, said the other day that this is the only way the BJP, the largest party in Lok Sabha can be prevented from coming to power and secularism can be defended. The CPI leader, Indrajit Gupta, who gave up the office of the general secretary of the party to become home minister, has also no apprehension of the Congress withdrawing its support to the UF government. He, therefore, believes that Deve Gowda government would complete "its full term".

The stand of these left stalwarts, ironically, coincides with that of P V Narasimha Rao, the former prime minister who was ousted from power by the electorate voting against him and his party in the general election. Rao has bounced back into political business after securing bail from the courts where he is facing trial on criminal charges. He has declared with gusto that Gowda would last the full terms as prime minister. However, there has been a storm in the Congress tea cup over Rao's support to Gowda. Sitaram Kesri, the Congress president after Rao was forced to vacate the position, has been asserting that Congress support to the UF government is no longer unconditional. The notion of a 'full term' for the government was actively canvassed by Rao when he was heading a minority government and trying to muster majority support by means fair and foul. For the left leaders to subscribe to this notion is indeed remarkable. It means that they have lost confidence in the democratic option of mass mobilisation to such an extent that they have allowed themselves to be drawn into finding a place in the power structure by devious ways They do not seem to bother too much any more if their political adversaries – not only BJP but the Congress Party as well – taunt them for themselves having no option but to support and prop up the Deve Gowda government, however questionable be its performance and democratic credentials.

The fact, after all, is that the disparate political parties which have formed the Deve Gowda government have cynically resiled from their pre-election ideological, political and policy commitments. With the principle of accountability so violated, even the left parties have been attempting to blur ideological positions and side-tracking contention on policy issues. While the Deve Gowda government has been functioning as a stop-gap arrangement, the left leaders seem to think that under the prevailing conditions and alignment of political forces, they can play only a limited role in the political power set-up. Their leaders however fondly hope that they can influence government policies by playing the role of pro-active advisors to those who are really holding the levers of power in the UF set-up, especially the prime minister. This explains their hectic activity and energetic exercises in influence peddling. This is not a novel phenomenon, of course. Some of the leaders of the left parties, when they found it arduous to build a mass support base, have tended to adopt and relish this role in the past as well.

A noteworthy feature of the political sceen currently is faction-forming and in-fighting in all the political parties, which offers wide opportunities for ambitious individuals for garnering personal gains. It is not surprising either that while relations between the leading lights of the UF parties are getting strained, Narasimha Rao, in spite of the many odds against him, has found help and support within the UF. He is widely perceived to be enjoying close rapport with the prime minister. Deve Gowda, once he was catapulted to the exalted office of prime minister, has been striving to perpetuate a system of policy-making and administration under his personal control and for personal ends. Besides assembling those he considers personally loyal to him to run sensitive posts in the government set-up, he has shown no hesitation to look for political support outside the UF in order to perpetuate himself as prime minister for a 'full term' *a la* Narasimha Rao. He is very keen to outgrow the status of a choice of convenience of the king-makers in the UF. But the snags in his way are still formidable. He has to constantly search for more and more 'outside' supporters for his survival as prime minister. Both by design and default, his political and administrative moves have, therefore, tended to be fitful. He has been inclined to be alternately brazen and humble when his actions and performance are questioned.

The entrenched vested interests in the political power structure in India have shown over the years a remarkable proficiency in managing political-party alignments in their favour and perpetuating their hegemony. They have adopted ingenious ways to bring together from time to time seemingly disparate social and political trends and forces on an essentially right-wing platform. This has been a complex process of political-ideological management. The Congress Party has shown remarkable panache in this exercise during its political hegemony extending over nearly five decades. It managed to marginalise the more intractable political parties and groups, especially those with a leftist orientation, and assemble within its fold upper segments of society and reactionary political forces. Side by side, individuals with influence among the popular masses were co-opted with considerable success in the political power structure. Similar efforts are being made in the era of coalition politics too. But these efforts are devoid of the customary skill of the Congress Party so long as it enjoyed policy hegemony and lack finesse. Of late, in particular after the formation of the United Front government headed by Deve Gowda, they have become crude and grotesque and public aversion to political corruption has become both widespread and articulate.

The rapport between prime minister Gowda and former prime minister Narasimha Rao has been widely noted as a fishy arrangement. There are now reports which cannot be dismissed casually that Gowda is trying to enter into a similar understanding with Sitaram Kesri. The leaders of the left parties have occasionally questioned the nature and purpose of the Congress-UF relationship and repudiate a possible 'deal' between Gowda and Rao or Kesri. There have been protests also when it is asserted that the Congress has no alternative but to support the UF government unconditionally. But even as the conditionalities governing Congress support for the UF government have surfaced, the left parties find themselves

in an awkward position. They have now to put up with jibes that they too have limited their options and have to support the Deve Gowda government but for an occasional outburst against its performance.

What is disconcerting is that the wheeling-dealing has become stark as a condition of the survival of the Deve Gowda government. All the parties in the UF front are engaged in this pastime, with Gowda the most active practitioner. Be it the question of formation of a government in UP after the fiercely fought elections or installing a government headed by defectors from BJP in Gujarat, wheeling-dealing is taking precedence over democratic accountability and transparency. The affairs of the Janata Dal are being managed on the same basis. The economic policy reservations were readily put aside by the left parties in the UF steering committee to maintain unanimity over the UP imbroglio. The moves to arrange nominations to Rajya Sabha, going so far as to seek a seat for a union cabinet minister known to be a personal nominee of the CPI(M) general secretary from Jammu and Kashmir have been extraordinary to say the least. Ramoowalia may now have to be accommodated from UP as part of a deal between Surjeet and Mulayam Singh. Meanwhile, the move to enlarge the list of OBCs for reservations has been shot down, much to the discomfiture of Gowda.

The disillusionment of the people over the promises and performance of the UF government has already begun to surface. Popular discontent is bound to grow and spread even as the political cohesion of the UF is visibly weakening. The left parties, in particular, are already in a very vulnerable position. They are exposed to the taunts of the ruling clique and the political opposition as well as derision from within their own mass support base. The mood in their trade union wings is becoming restive. The organised workers are no longer amenable to the restraining influence and conveniences of their political leaders. It is remarkable that the leaders of the left parties remain oblivious of the further erosion of their already relatively weak popular support base because of their association with the Deve Gowda government. They do not seem to realise that in the face of the conflict of political and social interests, the secular thread cannot hold the UF together. Dents in the secular front have become visible. The UF government has not paid much respect to policy commitments. If the democratic contest is vitiated or thwarted by shady deals and misuse of the administrative apparatus the consequences are bound to be grave. The popular verdict on policies and principles must be honoured. Any move to pre-empt the verdict of the electorate is to vitiate and emasculate the democratic process.

The spectre of political instability has not disappeared. The UF led by Deve Gowda has not turned out to be a coalition which can be an authentic and viable alternative to the prolonged single-party domination of the Congress Party. The Congress Party after losing its political hegemony has been enfeebled in the last five years to an extent that it is not likely to revive either. Popular discontent meanwhile is surfacing and gathering momentum. The UF partners will be well advised not to strike brave postures and proclaim that their government will enjoy a full term just because no party or MP is ready for an early general election. A sad feature of the political scene after the electorate ousted the Rao government is that the opportunities which had arisen for meaningful realignment of political and social forces have been missed and the hiatus between the so-called mainstream political parties and popular masses is widening. This can only strengthen the political articulation and manifestation of popular protest outside the mainstream political parties with implications and consequences of a far-reaching nature.

TAMIL NADU

New Start in Local Government

P S Vijaya Natha Raj

The erstwhile AIADMK government had repeatedly put off elections to local government bodies on one dishonest pretext or the other. The civic elections in October, held after a gap of 15 years, thus gave a new start to local government in Tamil Nadu. They were also the first to be held under the new dispensation provided by the 73rd and 74th Amendments to the Constitution.

SINCE 1967 politics in Tamil Nadu has projected the hegemony of regional parties. For three decades none of the national parties has been strong enough to fight and win elections without the support of either DMK or AIADMK. Against this backdrop, an attempt is made here to analyse the verdict of the recently concluded civic elections.

The state has so far seen five elections to rural local bodies and a few to urban local bodies since its formation in 1956. Grass roots democracy and local political institutions have been at the mercy of the party in power in the state. The paradox is that while both DMK and AIADMK have strongly pressurised the central leadership for more powers for the states, they tried to control the local administration for their political convenience. The newly enacted 73rd and 74th Constitutional Amendment Acts attempt to put an end to this decades-old system. The elections to the local bodies in October this year were conducted under the new dispensation.

Past Panchayat Elections

The state witnessed four elections in the rural areas under the Tamil Nadu Panchayat Act, 1958. The first was held in 1959, phased through the year. The ward members of the panchayats alone were elected directly by the people, while the heads of the panchayats and panchayat union councils were elected indirectly. The elections, which were supposed to be non-party, saw political power passing into the hands of those in the top echelons of the rural society. The second election was held in 1965 in two phases. The first phase was for electing ward members of both town and gram panchayats and ended on February 2, 1965, covering 13,030 panchayats. The election of presidents of panchayats and panchayat union councils was held in April 1965 as a second phase by the indirect system. The elections this time showed signs of party colours, though 30 per cent of the ward members of panchayats were declared elected unopposed.

The third election was held in July-August 1970 with a notable change in the electoral system. For the first time, presidents of panchayats, along with ward members, were elected directly by the people, while the indirect system was retained for electing the heads of panchayat union councils. The first phase of the election was held towards the end of July in all the 13,184 panchayats. The election of the chairmen of the panchayat union councils by the indirect method was held in August 1970. The split in the Congress Party into R and O helped to sharpen the fight among the political parties, though the election was still supposed to be on a non-party basis. The election verdict went in favour of the DMK and against the Congress(O). DMK secured 3,315 posts of presidents of panchayats, followed by 2,711 secured by the Congress(O). In the election of chairmen of the panchayat union councils

it was a tug-of-war of money and muscle power between the DMK and Congress(O). Of 369 seats to which elections were held (in five seats elections were countermanded), the DMK gained an edge over its rival. Both parties surrendered some seats to the independents with a view to reducing the chances of the other. The partywise break-up of seats was as follows: DMK 144, Congress(O) 132, Congress(R) 6, CPI 5, Swatantra 4, Forward bloc 3, Toilers Party 2, CPI(M) and Dravidar Kazhagam one each, Farmers' Association 8, Independents backed by DMK and Congress(O) 12 and 15, respectively, and 36 other independents. In short, the third panchayat elections opened a new chapter of party politics in the political process at the grass roots level.

The fourth local body elections were held in February 1986, simultaneously for rural local bodies and municipalities. Some new features were introduced in the system. They were (a) lowering of the voting age from 21 to 18 years and (b) applying direct election method for all offices, viz, ward members and the presidents of both gram and town panchayats, chairmen of panchayat union councils and both ward members and chairmen of the municipal councils. Election of the heads of municipalities, panchayat union councils and town panchayats were on party basis, while those of ward members at all these levels and presidents of gram panchayats were on non-party basis. There were 12,610 posts of presidents and 1,37,155 of members from 53,947 wards in gram panchayats; 628 presidents and 9,065 ward members of town panchayats; 382 chairmen of panchayat union councils; and 98 chairmen and 2,676 ward members of municipal councils. The elections were held after a gap of more than 15 years, the ruling AIADMK having found different excuses for postponing them repeatedly – notably, natural calamities, revision of electoral rolls, proposal to introduce photo identity cards for voters, reservation of seats for women, SC and ST communities, and so on.

The electoral alliance in the local body elections were essentially the same as in the 1984 general election. The AIADMK and Congress(I) were in alliance against the DMK, CPI(M), CPI and IUML. The Janata Party had an understanding in certain places with the DMK-led front, whereas the BJP and GKNC entered the fray on their own. There were 2,717 candidates for the 626 presidentships in town panchayats; 1,439 for the 180 chairmanships of panchayats union councils; and 512 for the chairmanships and 11,098 for ward memberships at the municipal level. The election had some noteworthy features: (a) For the first time a good number of women contested the election, 266 for presidentships and 9,652 for ward memberships in the gram panchayats. (b) A total of 1,611 presidents and 73,604 ward members were elected unopposed in the gram panchayats. (c) A number of independents were successful against party candidates in the elections for posts of heads of town panchayats and panchayat union councils. And (d) the DMK-led front scored an unexpected victory against the AIADMK-led front in the town panchayats. Table 1 gives the 1986 election results partywise.

The ruling AIADMK saw an unexpected erosion from its decades-old dominance. The DMK made inroads into AIADMK strongholds in a number of districts. The DMK captured 64 municipal councils, 138 panchayat union councils and 188 town panchayats against the AIADMK's 11, 123 and 124, respectively. This was the result of the DMK's strong organisational base at the grass roots, the emergence of factionalism within the AIADMK between leaders like R M Veerappan and J Jayalalitha and, finally, the unhappiness among the general public over the AIADMK government's repeated postponement of the civic elections ever since it came to power in 1977.

New Start in 1996

With the enactment of the 73rd and 74th Constitutional Amendments in April 1993, a uniform and codified structure of local government was brought into effect throughout the country. Tamil Nadu was forced to fall in line and pass its own Panchayat Act in 1994. A three-tier panchayat raj system was put in place. Ward members at all the three levels (gram panchayats, panchayat unions and district panchayats) and the heads of the gram panchayats were to be elected directly by the people, while the heads of the panchayat unions and district panchayats were to be elected indirectly. In the case of urban local bodies, viz, town panchayats, municipal bodies and corporations, all the posts were to be filled by direct election. Elections to both rural and urban local bodies were held in two phases in the second and fourth weeks of October. The newly formed DMK government could thus claim to have revived local political institutions and thereby grass roots democracy after a long gap.

The number of ward members in a gram panchayat is determined on the basis of population as per the 1991 census as follows:

Population	No of Members to be Elected
500-2,000	6
2,001-6,000	9
6,001-10,000	12
Above 10,000	15

A two-day poll was held to elect 1,31,532 persons to different posts in rural and urban local bodies. Elections to all posts, except those in the gram panchayats, were on party basis. A total of 76,713 candidates were in the fray for the posts other than those in the gram panchayats. The partywise break-up of the candidates was as follows: DMK 11,710, TMC 6,362, CPI 987, AIADMK 13,513, MDMK 3,485, CPI(M) 2,577, BJP 1,322, Congress(I) 2,466, PMK 1,919, Janata Dal

Table 1: Results of the Civic Elections in 1986

Office	AIADMK-led Front	DMK-led Front	BJP	Janata	Others	Total
Presidents of town panchayats	215	222	2	21	166	626
Chairmen of panchayat union councils	198	150	0	3	29	380
Chairmen of municipal councils	22	69	0	2	4	97

Note: Elections for two seats each in town panchayats and panchayat union councils and one in municipal councils were countermanded.

Table 2: Candidates Elected Unopposed in Local Body Elections, 1996

Office	Number of Posts	Elected Un-opposed	Post for Which There Was No Nomination
Ward members of gram panchayats	97014	34756	1397
Presidents of gram panchayats	12584	868	15
Ward members of town panchayats	10173	835	4
Presidents of town panchayats	634	12	–
Ward members of panchayat unions	6504	176	–
Ward members of district panchayat	649	7	–
Ward members of municipalities			
Chairmen of municipalities	102	–	–
Ward members of corporations	474	–	–
Mayors of corporations	6	–	–
Total	131532	36804	1417

Source: *Thinamalar*, Nellai, September 19, 1996.

636, Janata Party 149, Congress(T) 9 and Samata 33. There were around 31,545 independents. More than one-third of the ward members of the gram panchayats were elected unopposed and in a number of cases elections had to be postponed because no candidates were forthcoming (Table 2). The elections were held on October 9 and 12. Table 3 gives the polling percentage districtwise. The rural local bodies registered a little higher percentage of voter turnout than urban bodies. The voting percentage in the gram panchayats was around 75, followed by 70 in town panchayats, 60 to 70 in municipalities, and 50 to 55 in the corporations. The rural people have thus shown greater involvement in the revival of democracy at the grass roots.

TABLE 3: POLL PERCENTAGE IN 1996 LOCAL BODY ELECTIONS AND PARTY POSITION IN RESPECT OF CHAIRMANSHIPS OF TOWN PANCHAYATS AND MUNICIPALITIES

District	Poll Percentage: Rural Bodies on 9th	Rural Bodies on 12th	Urban Bodies on 9th	Urban Bodies on 12th	Total No of TPs and Municipalities	Party Position: DMK	TMC	CPI	AIADMK	MDMK	CPI (M)	BJP	Cong (I)	PMK	J Dal	Independents
Anna	72	60	72	72	6(28)	2 (15)	2 (7)		2 (1)	(2)				(1)		(2)
MGR	71	64	70	69	6(19)	4(9)	2(5)		(1)							(4)
North Arcot Ambedkar	74	76	71	69	9(27)	4(13)	3(6)		(1)	1						1(7)
Thiruvannamalai-Sambuvaryar	60	81	70	77	4(10)	1(4)	1(1)		1(3)	(1)						1(1)
South Arcot Vallalar	70	68	70	73	5(16)	3(3)	2(2)		(4)				(1)			(6)
Villupuram Ramaswamy Padayatchiar	70	68	69	74	2(16)	1(6)	(3)		1(2)							(5)
Dharmapuri	65	70	71	74	3(17)	2(7)	1(2)		(4)							(4)
Selam	74	73	71	72	3(34)	2(9)	1(6)		(8)				(1)	(1)		(7)
Rajaji	73	76	70	74	4(20)	3(10)	1(3)		(4)							(3)
Periyar	81	79	70	78	5(61)	2(21)	2(8)	1(1)	(6)	(5)				(1)		(19)
Coimbatore	80	79	70	71	4(60)	2(18)	2(8)	(2)	(8)	(3)					(1)	(20)
Niligris	69		69		2(21)	1(12)	1(6)		(1)	(1)						(1)
Nagai-Quaide Nilleth	81	76	71	72	3(10)	2(4)	1		(1)	(1)						(4)
A T Panneer-selvam	78	79	70	68	(7)	(3)	(1)	(1)								(2)
Thanjavur	76	79	70	68	3(22)	2(8)	(4)		(3)					(1)		1(6)
Tiruchi-Perimpidugu Mutharayar	78	76	73	62	2(19)	1(7)	(4)		(1)	(1)			(1)			1(5)
Perambalur-Thiruvalluvar	68	66	69	75	4(9)	2(1)	1(2)		(2)	1(1)						(3)
Karur-Dheeran Chinnamalai	70	68	69	72	2(13)	(3)	(3)		(2)	2(1)						(4)
Pudukottai	75	82	69	70	2(8)	1(1)	1(2)		(2)	(1)					(1)	(1)
Dindigal-Mannar-Thirumalai	73	65	71	76	3(24)	1(8)	1(5)		(6)				(1)			1(4)
Madurai	72	70	67	71	3(15)	2(3)	(5)		(2)							1(5)
Vaigai	72	71	71	79	5(23)	2(6)	1(5)		1(6)	(1)		(1)				1(4)
Ramanathapuram	70	70	69	68	2(9)	1(1)	(1)	1	(3)	(1)						(3)
Kamarajar	75	79	70	74	6(10)	1(4)	3(2)	(2)	1(1)		(1)					1
Pasumpon Muthu Ramalinga Thevar	65	65	65	65	3(12)	2(5)	1(3)									(4)
Thirunelveli-Kattabomman	75	76	67	74	5(37)	2(8)	1(5)		1(7)	1(1)		(1)	(2)			(13)
Chidambarnar	63	80	65	73	2(20)	1(3)	(3)		1(2)	(1)	(2)		(1)			(8)
Kanyakumari	72	70	69	70	4(67)	1(14)	(7)		(3)	1(1)	1(12)	1(12)			(2)	(16)
Total					102(634)	48(206)	28(109)	2(6)	8(84)	6(22)	1(15)	1(14)	(7)	(4)	(4)	8(161)

Note: Figures within brackets are town panchayats and figures outside are municipalities.

TABLE 4: PARTY POSITION IN CORPORATION ELECTIONS

Corporation	Party Which Won Mayoral Post	Total Wards	Party Position in Wards: DMK	TMC	CPI	AIADMK	MDMK	CPI (M)	PMK	J Dal	BJP	Cong (I)	Others
Chennai (Madras)	DMK	155	96	52	2	2	–	–	–	–	–	–	–
Tiruchi	TMC	60	28	15	5	6	–	1	–	–	1	–	–
Coimbatore	TMC	72	33	26	2	1	1	3	–	–	–	1	2
Selam	DMK	60	25	13	–	10	–	1	1	1	1	–	–
Madurai	DMK	72	28	21	1	8	1	7	–	–	–	–	–
Tirunelveli	DMK	55	20	11	2	9	1	1	–	–	–	–	–
Total		474	230	138	12	36	3	13	1	1	2	1	2

Table 5: Party Position in Urban and Rural Local Bodies

Office	Total Post	Party Position: DMK	TMC	CPI	AIADMK	MDMK	CPI (M)	BJP	Cong (I)	PMK	J Dal	Janata	Samata	Others	Independents	Result Withheld
Municipal chairmen	102	48	28	2	8	6	1	1	–	–	–	–	1	–	7	–
Municipal ward member	3392	1124	534	81	456	116	35	30	33	44	14	5	5	–	911	2
Town panchayat president	634	206	109	6	84	22	15	14	7	4	4	–	–	–	161	2
Town panchayat ward member	10173	2106	1097	88	999	218	204	149	90	72	39	1	–	–	5088	–
District panchayat ward member	648	330	179	17	78	10	6	2	1	20	1	1	–	2	3	–
Panchayat union ward member	6496	2211	1047	94	1144	175	72	25	54	284	11	7	–	–	1367	3

The Results

The DMK and TMC have together gained control over all the six municipal corporations, three-fourths of the municipalities and around one-half of the town panchayats. The Congress(I) which was routed in the general elections, has been further marginalised in the civic elections. The DMK-led front polled 56 per cent of the valid votes in the six corporations, followed by 26 per cent by the AIADMK-Janata Party alliance. Table 4 gives the party positions in the corporation elections. The DMK-led front secured 77.6 per cent of the total wards. In the case of elections to the chairmanships of municipalities and town panchayats too the DMK front did well, capturing 74.5 per cent and 49 per cent seats, respectively. It is interesting to note that the dominance of the DMK and TMC decreases as we move from urban to rural local bodies. Despite the setback it suffered in the civic elections, following that in the general elections six months back, the AIADMK is still clearly the alternative to the ruling DMK, especially in the rural areas.

The DMK's dominant position in local political institutions is the result of its strong organisational base at the grass roots. In the local elections in 1965, the party captured 1,654 panchayats against 6,633 by the Congress. However, in 1970 it got 3,314 panchayats and 144 panchayat unions against 2,711 and 132 seats respectively of the Congress(O). In 1986 its tally was 64 municipalities, 138 panchayat unions, and 188 town panchayats against 11, 129 and 124 respectively of the AIADMK.

Despite the AIADMK's poor performance in the civic elections, after its defeat in the general elections some months back, the AIADMK remains strong enough to challenge the DMK. Contrary to the popular impression, the party managed to more or less retain its tally in the 1986 elections. In 1986, the party, with an electoral alliance with Congress(I), was able to capture 11 municipal chairmanships against eight in 1996 without any alliance. Also, the party won in 124 town panchayats in 1986 against 84 in 1996. The mass-base of the AIADMK especially in the rural areas, is by no means to be written off.

The party to suffer the worst disaster in the civic elections is the Congress(I). The party won only one seat out of 474 in the seven corporations, 33 out of the 3,392 wards in municipalities, seven out of the 634 presidentships in town panchayats and 90 out of the 10,173 wards in them; only one seat out of 648 in district panchayats and 54 members out of 6,496 panchayat unions. The party lagged behind even newly-formed regional parties like the MDMK and PMK. The party could not get a single seat in the corporation of the capital city, in which it had captured 39 seats out of 104 in 1964 and 52 out of 120 in 1968.

The local elections outcome reaffirmed that the anti-AIADMK wave in evidence in the general elections five months back was persisting. The civic elections have also been a step in settling the question of the succession in the DMK. Karunanidhi's son Stalin, has been elected to the topmost position in the civic bodies in the state. This issue had earlier led to a split in the party and the emergence of MDMK under the leadership of Gopalaswamy.

The civic elections also brought to the surface the tensions between the DMK and the TMC. TMC leader G K Moopanar has made no secret of his dream of reviving 'Kamaraj rule' in the state and himself emerging as Kamaraj's heir. The indirect election of the heads of panchayat union councils and district panchayats clearly indicated the tug-of-war between the two parties in many districts in the south.

Nagaland: Beyond Politics of Identity

Sanjay Sangvai

Aspiration for self-determination will continue to be the over-arching theme of Naga politics in the years to come. Yet, the politics also needs to be perceptive of the consequences of the type of development launched in the state so as to align with movements occurring in other parts of the subcontinent.

THE first thing strikes any outsider in Nagaland is the sheer beauty of the terrain – the green mountains under the vast canopy of the blue sky, the villages embracing the hillsides, and the spontaneous and decent way the people interact with each other and with you. As you stay more, it is the sense of equality, relatively more than in any part of the subcontinent except in tribal areas, among the different sections of population, and particularly, between men and women, that makes you take serious note.

The relative prosperity among the Nagas, particularly the middle and urban classes, the rampant westernisation and consumerism along with the money culture forms another aspect of the Naga reality. Scratch any thinking Naga student, or member of intelligentsia and (s)he will complain about the 'money culture that is ruining the youths and the basic socio-political values and institution of the Naga society'. The money bags and subsidy from Delhiwallahs has been dampening the entrepreneurship, the independent and self-reliant economy and the concomitant independent politics of the Nagas. The third aspect of the Naga reality is the long and arduous struggle for 'freedom' and 'self determination', which have been the central values and aspirations of Naga politics of any hue. It is but a pity that the majority of politicians, political parties, intellectuals and serious journalists prefer to ignore this aspect of Naga problem. This evasion of the basic issue of the self-determination, not only of the Nagas but of other such nationalities, has proved to be and will be counter-productive.

The Naga intellectuals or the former Naga army veterans point out that India has been the most natural ally, friend, and political, economic inspiration and shelter for Naga people. But this relation can be retained only with the recognition of the separate identity and political entity of the Naga people, they say. "Why India should spend so much money and gain nothing but enmity of the Naga people? Isn't it a losing proposition? Instead of that, India could live as a most dependable, trusted friend of Nagaland, Naga people and we too would take care of India's strategic and political interests in the region. Let us work out some such modalities, it is not at all difficult for Nagaland to safeguard the interests of India" said general Maken, from Mokokchung area. This old, veteran leader had been the chief of Naga army for 25 years and is now trying to unite all the factions and groups fighting the Naga cause, but currently engaged in internecine feuds. Not only general Maken, but the village *gomburas* of the Kohima village council too think so. All of them have been Naga army veterans and have recently came 'overground'. The village head, Vimedo, tells in terse way, "The root cause is – you Indians say *We* Indians, that means including the Nagas. We Nagas say *we Nagas and you Indians*." That sums up the entire issue.

The aspiration for self-determination has been an over-arching, and overused, theme of the Naga politics. No one, not even the most moderate and pro-India political elements, can evade this theme. The armed struggle for the Naga Republic, in the form of the National Socialist Council of Nagaland (NSCN), enjoys some support as an undercurrent and is a given reality. It is perfectly recognised that the warring factions of NSCN or other underground groups (UGs) have been harassing the common Nagas or causing uncalled for bloodshed. However, that does not make the people to believe in the army or Delhi truth that the 'secessionist' groups have been losing the base. Some of the Naga groups, particularly the student groups, have been emphasising the need for a holistic and ideological orientation for the Naga issues. Many of them are equally concerned about the rampant consumerist social and political culture and the depletion of the natural resources of Nagaland.

The continued presence of the armed forces, and the atrocities and violation of the human rights by them has been the fourth aspect of the reality in Nagaland. Apart from the visible atrocities in and outside of the custody, of which there has been no dearth, the armed forces presence has itself made life abnormal. These armed jawans, insecure though they feel in this alien land, are everywhere – in bazaars, chowks, on roads, highways. People, particularly women and girls, feel insecure and threatened. Any time a havaldar can nab you or shoot you, make the people run for their life and dignity. The armed forces special powers act has further immunised them from the normal state administrative control, legislative and judicial accountability. The armed forces thus has been a state within state. The very presence of these forces, notwithstanding some gestures of goodwill and concern by the army and by some enlightened officials, continues to antagonise the people. An avoidable bitterness about the state, about India pervades throughout the villages, and boardrooms of the intellectuals. The armed forces and their acts of omissions and commissions further alienate the Naga people, sully the image of India in international arena and constitutes financial burden on the exchequer.

True, the Naga issue has an international context of the dominance and control by the hegemonic powers. The interference by the neighbouring countries including China and the international drug cartels had aggravated the situation. The Indian army has to deal with them. But by highlighting only the aspect of 'alien hand', the genuine aspirations of the Naga people are being neglected. The continued presence, and increasing influence and role of the armed forces in Nagaland – for that matter in the entire north-eastern region – is a matter of grave concern. Number of organisations, movements have emerged during last two decades to safeguard the fundamental human rights and campaign against the state-sponsored atrocities and violation of human rights. The India-based human rights organisations too have played their part in highlighting the human rights condition in the area. Naga People's Movement for Human Rights (NPMHR), Naga Students' Federation and other such organisations have painstakingly collected the information about the atrocities, have been demanding the right to information, filing the court cases. During last five years, an enlightened intelligentsia in and outside Nagaland has been trying to broaden the scope of the debate of the Naga self-determination with the inputs like the democracy, tolerance, participation, cultural identity, restraints on consumerism and money culture along with saving the natural resources, indigenous knowledge system. All this is still in an incipient stage though.

The response of the army and that of the government to the allegations of the human rights violations constitutes yet another aspect of the Naga political life. The armed forces maintain that they are not in Nagaland on their free will. They have been specifically

called in by the elected government of Nagaland, whatever that might be. They report to the government and move in only on specific request of the administration. As brigadier P K Singh of the army headquarters at Chakbama pointed out, the armed forces follow all the legal niceties scrupulously. When someone points out that the state government is not a legitimate body, it does not represent the Naga aspirations, the army has nothing to do with it. The Armed Forces Special Powers Act, 1972 was invoked in April 1995 on the request of the chief minister S C Jamir, who did not care to inform the cabinet, legislative assembly or for that matter the ruling party before accepting the centre's suggestion regarding invoking this act. All legitimate political processes followed the invocation of this act. Some of the ministers, for example, the minister for law, Lohe, confessed to some activists in April 1996, that the cabinet knew nothing of the invocation of such act and came to know only after CM's announcement. Thus, the armed forces were there to protect the state government and the ruling clique against the 'extortionists' undergrounds (UGs), say the ruling party members. Entire normal political process is distorted for this purpose. The interests of the ruling party, a group in Nagaland, coincide with the interests of the 'Indian' government. The army claims that they are acting on the request of the state government. The army officials also make it a point to have a dig at the state police. Why is the army called? Because the state administration and the people theme selves do not believe in the police and their efficiency, told brigadier Singh.

The army nowadays strongly argues for the human rights of the personnel of the armed forces. Brigadier K V M Nair of Assam Rifles in Kohima blamed the human rights organisations of deliberately ignoring this aspect. It is a queer argument of equalising state violence with the retaliatory acts of the non-state groups. The Indian government has discovered in recent times the right to development of the third world countries to counter the arguments of the people's struggles in their own country. Similarly, the human rights of government officials is being used to smother any talk about the grave violation of the people's rights at the hands of the army.

Thirdly, the army has its own internal mechanism, its own built-in review process whereby any violation of the code of conduct is first detected, tried and is punished. This internal mechanism is far more fast, superior and efficient, the officials maintain. "We are the first to be aware of our responsibilities, the failures, as we care for our reputation", they maintain. Accordingly, Indian armed forces contend that in Nagaland or in the north-east or even in Kashmir, they are not fighting against an enemy – but 'trying to dissuade their own countrymen, who have taken to the wrong path'. "We have our code of conduct; in north-east, every soldier has a card of the ten commandments", they would insist. The soldiers are given different sort of training and orientation. And finally, to quote armed forces officials, "We too are human beings. Army personnel are moral beings. We are doing the dirtiest job which no one could do, because we are told to do that and we are just obeying the orders. We are not satan, we too have our daughters, our emotions... ."

Then there is the 'Operation Good Samaritan' whereby the armed forces are engaged in the village development work, road building and what not. In Nagaland, 'Army Development Group' (ADG) carried out many schemes. However, this good samaritan role is normally not appreciated by the village people. At the most, there is a feeling of extracting benefits, using the army. People remain sullen, fuming, recalcitrant, unco-operative.

We, in India or the *rest of India* are blissfully unaware of what was happening in Nagaland and the north-east. Our perception largely depends upon the military handouts, flashed out by news agencies in Kohima and Guwahati. That makes us think that the problem mainly lies with the 'anti-national', 'terrorist' elements. The north-east, particularly Nagaland, has assumed phantasmagoric proportions in our imaginations. The activists, professionals and common people in the towns, villages in Nagaland were overwhelmed when some people from 'India' had come to hear what they want to say, their grievances and woes. It is argued that the armed forces are necessary in such a land if normal life is to be maintained that first there should be normalcy, only then there could be dialogue. This seems to be the common thinking of the powerholders. Many organisations, prominent people in Nagaland want the withdrawal of armed forces and a political dialogue to precede any let out in the UGs' activities. Or at least, the UGs' acts could not be made an excuse to avoid the political dialogue and solution.

Future Nagaland

The first question which nags all those who empathise with the Naga cause is: what is the vision of future Nagaland in the minds of those who strive for the cause of Naga self-determination? What kind of 'development' they envisage for future Nagaland? Is it the same model of development independent India has opted for some 50 years, which has resulted in more inequality, destruction of natural resources, indebtedness, cultural and political decadence? One could see the opulence, consumerism rampant in the lives of the middle classes and higher classes in Nagaland. The unmindful westernisation does not leave any scope for developing independent Naga cultural identity – be either in arts, attire, mindset, knowledge base or aspirations – particularly those of Naga youths. The Nagaland has become an integrated part of the consumerist India – or rather the globe and hence any talk of the identity, self-determination becomes more a management of power-sharing than a profound political ideology.

Secondly, there should be an internal critique of the social, cultural stratification, inequities, internal contradiction by the Nagas themselves. The 'identity syndrome' is presented as one monolith or given reality. No doubt, intellectuals and activists among Nagas are quite concerned about the erosion of Naga identity and cultural decadence. They are worried about the Naga youth increasingly becoming a part of the 'global' hegemonic order regarding political, cultural choices and lifestyles. Obviously, such subjugation blinds oneself towards knowledge base, science, political and social understanding, cultural values along with the natural resources of our own land and people. One is surprised to hear that fertilisers are not used in the rice fields in large parts of Nagaland, or about the kind food habits, medicines, traditional technologies, customary laws and responsibilities, work culture, participatory, decentralised yet well-knit political structures that existed in the traditional Naga society and the role of women even in the 'modern' Naga society. All these factors need to be assessed, evaluated in the present context. The people involved in Naga movement can make it a point to go to other places in India to experience the deprivation, destitution and exploitation, inequality, resource depletion there. The Naga movement or any such identity movement will have to place itself in larger context. Increased interaction between various movements, organisations in India, struggling on various issues and fronts would be beneficial for all movements. It would equip the Naga movement, whatever the aim and future course it takes to deal with the issues of the development.

[The article is based on a visit to Nagaland in April 1996 and interviews conducted during that visit. The article is not purported to be a report on Nagaland human rights or Naga problem, which happened to be the objective of the group with whom I visited Nagaland.]

UN Conferences: A Gargantuan Waste?

V Nath

If the enormous expenditure of money and intellectual manpower in holding UN conferences at regular intervals is instead channelised in directly alleviating problems of the less developed countries, better results might accrue.

THE various agencies of the United Nations system have organised during the last decade conferences on subjects ranging from environment (Rio de Janeiro, 1994), population (Cairo, 1994), Social Summit (Copenhagen, 1995), women's problems (Beijing, 1995) to Habitat II (Istambul, 1996). For every such conference most agencies of the UN system send their official delegations consisting of officials and experts on the various subjects to be discussed at the conference. The World Bank and often the IMF also are represented in strength: the Bank gives financial assistance for several projects to be undertaken by the less developed countries (LDCs) to alleviate various problems discussed at the conference; the IMF keeps watch on the balance of payments, implications of the expenditure, on various projects and programmes. The non-governmental organisations (NGOs) interested in the subjects of the conference hold, at the same time and place, parallel conferences to express their own viewpoint. Including the hundreds of media persons, observers and staff of the commercial firms selling equipment or providing expertise for undertaking projects to be implemented for solution of various problems, every conference is a jamboree attended by tens of thousands of persons. It is estimated that at the Beijing conference on women there were an estimated 50,000 persons from the NGOs alone.

An enormous amout of documentation is produced for every conference. The host UN agency prepares agenda papers which describe the problems to be discussed at the conference and the lines along which they could be alleviated. Most countries prepare 'country' papers which describe the problems in their country and what the government is doing to alleviate them. In addition, papers are prepared by groups of countries. Thus, the G-7 group representing the richest nations, which along with the World Bank are the principal sources of finance for projects to be undertaken for solutions of various problems, prepare papers representing their collective view. The Arab countries prepare papers expressing their particular views and reservations on various subjects because of cultural or religious reasons. The collective view of the LDCs may be formulated after the meeting of the G-77 group.

The participants in the official conference, its various committees and subcommittees, and in the NGO's conference spend endless hours discussing various papers and formulating their views on various problems. Often there is a discussion for several hours on a paragraph in the report of a committee or subcommittee. Sometimes, placing of a comma or semicolon, including or excluding a sentence may be the subject of a discussion for an hour. After every conference various divisions of the host UN agency are engaged in preparing progress reports on the recommendations of the conference or urging the member countries to undertake policies and programmes recommended by the conference. The officials in the concerned ministries in the member governments similarly prepare progress reports on various recommendations of the conference or explaining to the UN agency their difficulties in implementing them.

It is not easy to evaluate the results of this enormous expenditure of money and intellectual manpower that holding a conference involves. The Rio conference was enormously successful. It focused the attention of the governments and citizens of the world on the problems of environmental degradation and its dangers to human life, and lines of possible solutions. In India, every project is subject to clearance by the ministry of environment to ensure that it causes minimum damage to the environment. But most conferences do not have much impact. After the conference while officials of the various ministries concerned in the participating countries would be busy preparing progress reports in implementation (or otherwise) of its recommendations, most countries continue to pursue policies and undertake projects keeping in view their own particular economic or political constraints.

Bringing together officials and non-officials of most nations of the world to deliberate on a problem of great concern to humankind is undoubtedly an enormous achievement in itself. Getting agreement on approaches to solving it or creating awareness of its magnitude is another major accomplishment. But if after a conference most nations continue to follow policies or undertake programmes which they would have done without it, the question arises whether holding the conference is useful at all. The answer would be negative or partly positive. The negative answer would certainly apply to the two habitat conferences, held in Vancouver in 1976 and in Istambul in 1996. The problems of providing suitable housing, adequate and safe water supply, electricity, making arrangements for disposal of solid and liquid waste, basic education and health care, or public transport which is environment friendly for the burgeoning populations of the cities of the LDCs involve such large expenditures that most city or national governments are unable to do much about them. The total aid from the developed countries, the World Bank, or the UNDP makes only a small contribution to the projects aimed at alleviating these problems. The question therefore arises: whether the finance and manpower spent in holding these conferences would not have been better utilised in undertaking the projects? This can also be said of the various population conferences which continue to be organised by the UN every few years. The first one or two conferences did create awareness of the problems of rapid increase in the population of the LDCs and outlined policies and programmes needed to alleviate them. But conducting such conferences every few years, when there is adequate information on all aspects of the problem, is a waste. The job of reviewing progress on family planning or family welfare programmes could be done by small review groups within the UN agencies concerned with similar review groups within the various governments while the money spent on holding the conference could be given by UNDP as aid to the LDCs in alleviating it. The millions spent on holding Habitat II, which was attended by about 15,000 persons, could have provided low cost housing to tens of thousands or safe drinking water to millions of the poor in the cities of the LDCs.

'Days of Action' in Toronto

Big Bang in Canada's Politics

Pierre Beaudet

Optimism is high after the massive demonstrations in defence of social rights against the neo-liberal policies pursued by the federal and provincial governments of Canada. Yet a new alternative political programme that would reunite Canada behind progressive policies remains unclear.

OCTOBER 25, 1996 was the scene of the biggest strike in Canada's history. Toronto, the largest Canadian city as well as the industrial and financial heartland of Canada, was paralysed by a labour and community-based coalition, protesting against the current policies of the provincial government, led by the right wing Conservative Party of Premier Mike Harris. The next day, the largest demonstration ever held in the country happened in the same city, bringing together 2,00,000 people demanding the end of neo-liberal policies, focusing on cutbacks against social services, education and health, and massive retrenchments in the private and public sectors.

These 'Days of Action', as they were defined by the organisers, were in fact the culmination of a series of events that trade unions and community groups have organised in Ontario over the last 10 months. Last Spring, massive strikes and protests were held all along the industrial triangle of southern Ontario in several industrial cities like Hamilton, London and Peterborough. At the same time, several work stoppages were organised in the public sector, as well as a major strike in the auto industry led by the militant Canadian Auto Workers Union (CAW) who dared to take on, victoriously, the three giant US auto manufacturers: General Motors, Ford and Chrysler.

According to Sam Gindin, one of the foremost labour leaders who is with CAW, "the protest in Toronto was magic. We turned a Friday into a Sunday and turned a coalition into a movement." For Gindin, the strike demonstrated a new maturity, a capacity by labour and community groups to "focus on where the real power in our society lays: the banks and private corporations. Second, we went beyond waiting for the next election, and set out to mobilise public support to defend our social rights and, through this, to build a social movement. Only politics rooted in such a broad-based movement could counter the enormous power of the economic elite."

Challenge to Neo-Liberal Agenda

Although centred in Ontario, these recent developments have also penetrated the rest of the country where neo-liberal policies are being put in place, including by the Federal government presently led by the Liberal Party. Ironically, the Liberals won the 1993 elections on the basis that it would end the previous right wing policies of the Conservative Party. But since then, the government in Ottawa has renounced past electoral promises and basically been pursuing the same priorities.

Indeed since the early 1980s, the Federal government has shifted its policies. The financiarisation of the economy has been aggravated by several changes in the regulation of Canadian banks and other large financial institutions. This was supported by a systematic policy by the Bank of Canada to maintain high interest rates which, in turn, led to the skyrocketing of the national debt. Over the last two years, the five largest chartered banks increased their profits by 81 per cent. One fundamental reason for this phenomenal increase is the fact that the government's debt to the banks increased by over 500 per cent – from 15 billion dollars in 1988 to 80 billion dollars in 1995. These risk-free loans generate up to 7 billion annually in interest payments from the government – a direct transfer of income from Canadian taxpayers to the banks.

Not surprisingly, the total assets of the five largest banks have soared by 46 per cent over the past five years to the amount of 771billion dollars – exceeding the total federal debt by over 25 per cent. At least 85 per cent of the current federal deficit, and at least 75 per cent of the growth in federal debt since 1985, are directly attributable to the dramatic and permanent rise in real interest rates that began in the early 1980s. And this drain on the public treasury is continuing, despite the current emphasis on spending restraint. For example, of all the funds that will be saved by 1996-97 from the federal government's huge cuts to public programmes, fully 85 per cent will be paid back out to financial investors, thanks to almost 9 billion dollars per year in additional interest payments.

According to Linda McQuaig, a progressive journalist and social activist, "the Bank of Canada, in 1988, set as its goal the elimination of inflation. That may sound like a perfectly reasonable goal, since nobody, after all, likes inflation. But the truth is that the goal of eliminating inflation was in fact a very radical and dangerous policy. Essentially, the Bank of Canada turned the Canadian economy into a laboratory for an experiment that had never been conducted anywhere else in the advanced world. Since 1988, we've had the highest real interest rates of any of the G-7 nations. That has very serious consequences. What high interest rates do, essentially, is choke the economy. You can imagine money as the oxygen of the economy."

Parallel and in consequence of these changes, the Federal government as well as provincial governments particularly in Ontario and Alberta have launched a full-size assault on social spending, arguing that the state could no longer afford the cost of Keynesian-inspired programmes. Canada's social spending reached a peak of nearly 19 per cent of GDP in the depths of the 1991-93 recession, but has since dropped to about 16 per cent. It is projected to fall even further, to 14 per cent, as a result of the Liberal government's massive funding cuts – those already made and those planned in future budgets.

Conservatives like Mike Harris have been prompted to mobilise middle class support against "big government deficits caused by social programmes". Massive cutbacks in the range of several billion dollars have been inflicted on almost every social and educational programme. The result is that Toronto, the 'number one' world city according to *Forbes* magazine is now full of homeless and poor people. According to a report by a local food bank in the Greater Metro area, the proportion of adult food bank users who missed meals on a daily basis because they could not afford food rose from 15 per cent in 1995 to 35 per cent in 1996. The number of people who report having had no food for two or more days by the time they reached a food bank rose from 13 per cent in 1995 to 18 per cent in 1996. In the meantime, employers are asking for more 'downsizing' of government, deregulation and further integration of the economy into the larger North American market. One of their argument is that Canada cannot compete with the US if it does not lower its standards to fit the US 'model'. Historically, government transfers in Canada have been largely responsible for the fact that during the 1980s, unlike in the US and the UK, income inequality increased only slightly, even though the market distribution of income became much more unequal (in 1981 the richest 20 per cent of Canadians received about 12 times as much market income as the poorest 20 per cent,

and in 1992 they received over 22 times as much).

New Politics?

The events of Toronto clearly show that resistance to neo-liberal policies is high and increasing. However, what remains unclear is the capacity of labour and community groups to propose alternatives. Historically, the political party associated with labour was the centre-left New Democratic Party (NDP), which never held office in Ottawa but was elected in several provinces including Ontario in the early 1990s. But currently, the NDP is at a loss. Its social base is angry about what it perceived as a lack of focus and an inability to confront neo-liberalism when they are in public office. Secondly, the NDP has been unable to come up with innovative proposals concerning the crisis of national unity which has erupted once again since the 1995 Quebec referendum, which came close to breaking the country apart. Quebec's national aspirations have never been incorporated in the political culture of the NDP (nor for that matter in the more radical factions of the Canadian left). In return, Quebec nationalism which started from a left populist perspective has evolved towards the right, aiming at persuading the US that a break-up of Canada could be beneficial to Washington.

In the meantime, neo-liberal policies are accentuating the crisis since their direct impact is to diminish, just as in pre-breakdown Yugoslavia, the role of the state as a re-distributor of national wealth and as a regulator of national policies, thus leaving the regions and the provinces in a situation where they are more and more left to themselves to maintain minimum social and economic standards. Behind that drift is the pressure of the Canadian financial establishment, which is flirting with the idea of dissolving the Canadian state and fully integrating into the US, as explained earlier.

Unless Canadian labour is able to redress that situation, it is likely that resistance to neo-liberalism will remain reactive. The alternative is to build, within or without the NDP, a new political programme that would reunite Canada behind progressive policies, including the recognition of Quebec national aspirations and demands, but within the confines of a Canadian independent (read anti-US) platform.

Certainly, the upheaval in Ontario is leading to these questions. As usual, struggle brings new ideas and perspectives. As Sam Gindin explains, "What excites us now is the discovery of our organisational potentials, the links we are making, and the growing confidence of our activists. What keeps us going is seeing the large number of new people who were touched enough by what was happening to break out and come to their very first protest. What we looked to was our impact on broadening the debate on the issues and in framing how that debate took place. For us, the Days of Action politicised our communities and thereby democratised politics. The Toronto events didn't just bring thousands of additional pickets and marchers, it brought a new generation of activists full of the energy and creativity we desperately needed. They brought hope."

Israel: The Dilemmas of Growth

Frederic F Clairmont

The massive captial inflow under the garb of 'economic aid' into Israel is inseparable from Israel's political linkages with the US. These inflows have contributed to a huge disparity between Israel and the rest of the west Asia, and are feeding the roots of Arab nationalism.

THE growth of Israel's economy over the last decade has been impressive. What is its likely trajectory to the end of the century? What are the foundations of that growth given the present unsolved problems that bedevils Israel's political existence? The foundations of Israel's economy repose on the relentless inflows of billions of US dollars, both public and private; the existence of a Palestinian labour exploited at a subsistence wage and the sustained expropriation of Arab lands. To this must be added uninhibited access to the US market.

The economy grew 7 per cent in 1995. Its per capita income is around 16,500 dollars and is expected to hit 20,000 dollars by the turn of the century. A number that would catapult it into the ranks of many of Europe's developed economies. The aggregate figure is highly misleading given the monstrous income disparities between Jew and Arab within Israel, and among Jews themselves. In that respect Israel is far from being a homogeneous people. The pace of centralisation and concentration of capital – already high – is rising rapidly.

Turning to the West Bank and the Gaza Strip, we perceive that the per capita is around 1,100 dollars. What we are seeing is the persistent image of South Africa's economy in the pre-apartheid era. The Palestinians as the builders and farm workers that were responsible for the so-called 'economic miracle' have been utterly marginalised in the development process. They produce the cake but rarely eat it. Their subsistence purchasing power limits the growth of the domestic economy, and dramatises the marked duality within the economy. Can the Israeli economy continue to prosper under these conditions and if so for how long? That seems highly dubious.

Israel is already – and not merely in military hardware – an advanced industrial economy. The claim by some of its technocrats that it is the only economy in the world that can advance into the post-industrial information age without having gone through the phase of a conventional industrial revolution is a valid one inasmuch as it is not freighted down with aging and obsolescent industries. This argument requires many caveats and is beyond the scope of the present contribution.

The statement is true of the hi-tech sector which has become a rival of California's Silicon Valley, notably in telecommunications equipment. The interdependence of Wall Street and Israel, indeed its addiction, is seen in the capital flows from the Mecca of American finance capital. Billions of dollars have poured into all sectors of the Israeli economy and that too, independent of economic 'aid'. In the past six months of 1996 alone, Israeli companies raised almost 1 billion dollars of new investment, four-fifths coming from Wall Street.

In 1995, it pulled in over 2 billion dollars, triple that of 1994. By any standards these are world breaking records on a per capita basis. Certainly, no other West Asia country could approach this figure. Obviously, these inflows are inseparable from its political linkages with US finance capital, its major feeding grounds as well as the ebullience of US financial markets in recent years. These inflows have been translated into impressive GDP growth rates. This has contributed to a huge disparity between Israel and the rest of west Asia. The social and political ramifications of this huge divide are also feeding the roots of Arab nationalism.

The ramifications of this prodigious economic power is that by 1997 around 100 Israeli corporations will be listed on Wall Street. These companies, primarily hi-tech, will be second only to Canada in foreign stocks traded in New York financial markets.

Such growth is not an autonomous process; it is predicated on political stability and support of the Israeli bourgeoisie, which stands opposed to Netanyahu's political

course. Only by stability – and that means peace with the Arabs and the equitable solution of the Palestinian problem – will there be markets for its rising output of manufactured goods. The contradiction here is not simply between Jew and Arab but within the class forces in Israel and their relationship to the world market.

The attempt – so far successful – of stalling development in Palestinian areas by withholding economic aid has not worked to Israel's advantage. Where are the promised cash flows that were supposed to have flowed into Palestine following the Oslo deal? Indeed, the Palestinian autonomous group is penniless. Attempts to put money into this group were stymied by the powerful Jewish lobby in the US Congress.

Israeli public relations ballyhoo has always promoted the rhetoric and the image of little David defending himself against the Arab Goliath. This is a vulgar falsification of the historical record. No country at any time in history has received such massive inflows of 'economic aid'. Over the last 40 years it has received yearly 3 billion dollars of official US 'aid'. To this must be added the sum of two billion dollars from private international Jewry. That's 5 billion dollars. Israel's population is around six million. The US government alone provides Israel with 3 billion dollars in economic and military aid. That's not all the dollar juice flowing into coffers. In addition, the US provides Israel with 2 billion dollars of loan guarantees a year. Many of these loans will never be repaid. That means the American taxpayer will be footing the bill.

Over a 40-year span it has received gifts, donations and reparations (notably from Germany) of over 230 billion dollars. Compare this with the trifling sums of Soviet aid to Cuba that amounted to 2 million dollars a year now being repaid with interest. What we are seeing is that the Marshall Plan which amounted to 20 billion dollars (and that too was repaid with interest) was small beer by comparison. There is something even more invidious in the granting of this aid that puts Israel on the permanent gravy train.

Clinton is savaging the welfare state that was set up by the New Deal administration to help lift the American people out of poverty and deprivation. There is absolute consensus in the Dole/Clinton cabal that it should be aborted. And so it is. Have these austerity cuts affected the massive economic handouts to Israel? No way. Sacred cows cannot be touched. Such is the course of financial profligacy pursued by the present tenant and his predecessors in the White House and the political caste oligarchy that dominates the US Congress.

The pro-Israeli lobby is the biggest on Capitol Hill (trailed by Taiwan) and by far the best funded. No Congressman in his right senses would cross swords with that mightiest of lobbies because he would simply, and immediately, be axed. Senator Alphonse d'Amato, one of the most vociferous hustlers of that lobby, and who has been re-elected thanks to its greased benefactions, understands well the meaning of power. It must be emphasised that there is not one Jewish lobby but dozens; but the most important is the American Israel Public Aid Committee (AIPAC) which has been the prime mover of US aid in Congress.

AIPAC's new executive director is a Republican of impeccable financial 'free market' connections. He represents the highest powers of corporate America (*The Wall Street Journal*, August 9-10, 1996). Israel in short is a multi-billion dollar welfare state recipient, paid for by the American tax payer. And this at a time when 30 per cent of the American people are living below the poverty line. And let us not even talk of the tens of millions living in the rotting urban ghettos.

Why then is the money not forthcoming to rebuild the ghettos? Those bold spirits that raise this burning issue are immediately branded as anti-semites, an expletive shoved at those critics that have the audacity to question the magnitude of such aid at such a critical juncture of poverty-stricken America.

The comic irony of all this is that Netanyahu is calling for a reduction of this aid in a speech he made to Congress. It was no doubt intended as a public relations joke, but AIPAC did not see it that way. Its protagonists contend that the aid should be maintained and that military aid should be boosted. No doubt, the little verbal game will continue to the benefit of Israeli capitalism. In the last analysis, however, what will determine the fate of Israel and its economy is not the size of the aid package but its capacity to live with its neighbours: to live and let live. An attitude so far singularly absent in its twisted racist political vision.

Administration, Decentralisation and Good Governance

D Bandyopadhyay

We have a fairly sound format of good governance in an active parliament and state legislatures, an independent judiciary, free print media, a constitutionally guaranteed system of decentralisation and a small but growing and vigilant civil society. But, on the other hand, the values which are at the foundation of our republic are under assault through the process of liberalisation. Unless we reorient our economic and social policies on the basis of the principles enshrined in the Constitution, we may not have the substance of good governance.

I COMMEND the concept of 'good governance' in its simple English meaning. But I have a strong objection to the term as it is being touted in the recent years by multilateral and bilateral aid agencies as a part of precondition of aid or as a process of reform as conditions of aid. It is becoming an in-thing in recent development literature assiduously crafted and hawked by the north either to deny aid or to use it as leverage in securing changes in the system of governance in the aid receiving countries. The World Bank and the OECD have become great proponents of this concept. The World Bank has identified three distinct aspects of governance: (i) the form of political regime; (ii) the process by which authority is exercised in the management of a country's economic and social resources for development; and (iii) the capacity of governments to design, formulate and implement policies and discharge functions. The OECD uses the World Bank definition of governance with the following links: legitimacy of government (degree of democratisation), accountability of political and official elements of government (media freedom, transparent decision-making, accountability mechanisms), competence of governments to formulate policies and deliver services, and respect for human rights and rule of law (individual and group rights and security, framework for economic and social activity, and participation).[1] One is touched by the mock modesty of the Bank document when it states that as its charter prohibits, it does not look into the form of political regime as if by manipulating the other two elements, it does not subvert the first, but the OECD which consists of the old imperial powers does not have any such compunctions. With all their commitment to legitimacy of governance and human rights et al, most of the aid was directed towards strategic allies in the cold war, to many authoritarian regimes, to many high military spenders. Even today, two-and-a-half times as much per capita ODA goes to high military spenders as to low military spenders. Even today, strategic allies get preference over poor nations, for example, El Salvador receives 16 times as much US ODA per poor person as does Bangladesh even though Bangladesh is five times poorer.[2] Isn't this a fine example of the north's sophisticated hypocrisy and subtle double-speak? The term 'good governance' as it is being used today by the north has become the symbol of recolonisation and new Imperialism.

Where was this concept, if one may ask very politely, when African men, women and children were hunted and captured like wild animals and shackled and marched off in thousands to be sold as domestic work animals in the slave markets of the north not so long ago? Where was this noble idea when through overt and covert piracy treasures were shipped from Latin America and Asia to build the new industrial civilisation of the north? No one hears even a whisper of repentance or remorse of this great international pillage and robbery from the metropolitan powers which sucked the colonies dry through naked, shameless, direct and brutal exploitation to attain the stage of development they have achieved today. I also do not want to hear about 'social clauses' to be attached to international trade from those who built their present affluence on the basis of slave labour or indentured labour and by extracting surpluses by means most foul from the nations of the south. My plea is, please keep your counsel to yourself and ameliorate the conditions of your own citizens who are suffering from chronic unemployment, falling income, homelessness, poverty and other associated social disorder.

This does not, however, mean exoneration of our elected rulers and their minions who have been, particularly during the last five years, running a system of malfeasant misgovernance by plundering and swindling public funds for private gain. The *Economic Times* of September 17, 1996 published some figures of swindling of public funds so far unearthed during the Rao regime. The figures come to somewhere near Rs 10,000 crore. Knowledgeable persons think it is a gross underestimate. We are not debating here about the correctness of any absolute figures of felony and larceny which are in any case astronomical and beyond the comprehension of ordinary men and women. But the magnitude of this systematic fraud, deceipt, chicanery, embezzlement and theft is shocking and makes one feel sick. Both the perpetrators of these horrendous crimes and the degenerate system which allowed these to happen should be thrown into the dung heap of history. No mercy should be shown. No quarters should be given. Pitiless justice should remove them from the public view. We the citizens of this country who are the victims of this malgovernance should come together to establish a system of good governance through democratic process and rule of law so that we may not suffer again. This is our own problem which we have to sort out ourselves in our own way. We reject with disdain the 'futwa' of OECD and deplore any 'policy dialogue' of the Bretton Woods twins on this issue.

Even at the cost of slight repetition I would like to state my view about governance. Obviously, governance is wider than government, though government because it is the most powerful and coercive institution continues to be the major element of any system of governance. But in the era of privatisation, free market, contracting out, structural adjustment, decentralisation, restructuring, deregulation, sustainable development, empowerment; formulation and implementation of public policy seem increasingly to be undertaken by non-government institutions. Thus non-government organisations are becoming increasingly important elements in the governance with the retreat of the dirigisme. The third element in the governance is the corporate sector which includes both the national and transnational corporations. With the withdrawal of the state from the economic arena, the space is filled up by the corporate sector which wields enormous economic power affecting life, living and well-being of the masses. Transnational corporations have grown in size, number and power beyond comprehension in recent years. The significant and powerful among them are larger in net worth, annual income and even population than several member-nations of the UN. These corporations in much of their activity are beyond the reach of nation states;

indeed this freedom, autonomy or 'anarchy' is the distinguishing feature of multinational corporations. These corporations are the main actors in the world economy, they straddle national boundaries and the larger among them have sales which exceed aggregate output of many countries.[3] To talk of good governance means bringing about goodness in all the three sectors: government, civil society and corporate sector including transnational corporations. Is it possible?

THE BUREAUCRACY

Let us start from where it is possible, that is the government. If we can set our own house in order, there is a chance or a remote possibility of influencing the activities of the other two sectors. In the government one has to deal both with the structure and the bureaucracy. Elected political masters, good or bad, are either politically punished or rewarded through the process of elections which so far has been regular in our country. But the bureaucracy being permanent, its benign or malignant influence becomes long lasting and pervasive. While speaking about bureaucracy one cannot help quoting Winston Churchill's description of it: "Bureaucracy is a riddle wrapped in a mystery inside an enigma".

As an unrepentant bureaucrat of 35 years' vintage one may think that my views on the Indian bureaucracy would have an institutional bias. But being out of it for quite some time I now have both an insider and an outsider view of the system which I think would make my views fairly balanced. The Indian bureaucracy modelled on the British system is a body of generalist professionals which was expected to be efficient, disciplined, diligent, honest, fearless and politically neutral. In return the Constitution gave security of service and the public at large had a good opinion of members of senior services which enhanced the social standing and prestige of their individual members. Barring of few stray aberrations of individual nature, the bureaucracy acquitted itself well in the first two-and-a-half decades after independence. After 1967 when one-party rule ended in many states and the 'opposition' came to power, it took hardly any time for new political masters to establish a healthy and friendly working relationship with the bureaucracy and the bureaucracy did not find any difficulty to adjust itself to the new policy regime.

The civil services faced a real crisis during the internal emergency in the mid-1970s. If left a lasting adverse impact on the bureaucracy. During the emergency an intense fear psychosis shrouded the bureaucracy. Any difference of opinion was looked upon with suspicion. Any dissent was interpreted as an anti-state action. Sardar Patel tried to put the fear of God into the minds of the civil servants to make them fearless to men. In contrast during the emergency fear paralysed the conscience of civil servants. Normal checks and balances including the fear of exposure in the media in an open society were stymied. Quite a few buckled in. A few resisted. Many not on the direct line of pressure escaped unscathed. But in some, shorn of the normal restraining factors of an open society, the suppressed buccaneering urge showed up with its ugly primeval aggressiveness. These were the 'heroes' of the emergency. They violated all the canons of decency and civilised code of conduct and trampled with the rule of law with impunity. They prospered then. The tragedy was that they flourished even later. That set in the process of corrosion of moral fibre of the Indian bureaucracy. The strong and the determined ignored it, and continued as before. But many timid and faint hearted continued to be fearful even after the emergency was lifted. A weak bureaucracy is a handy tool for an amoral political system. And no determined efforts were made to stiffen the moral fibre of the bureaucracy thereafter. Some efforts were made during Rajiv Gandhi's time through compulsory training of all members of the superior civil services. But the approach was basically technocratic and not ethico-legal. It did not have any lasting impact.

Notwithstanding this the bureaucracy in India stands committed to a set of values enshrined in the Constitution. By swearing allegiance to the Constitution of India, civil servants individually and collectively are both duty-bound and honour-bound to uphold, preserve and protect the sovereignty and the secular, socialist and democratic character of the republic of ours. On the same logic they are mandated to secure to all its citizens justice social, economic and political, liberty of thought, expression, belief, faith and worship, equality of status and of opportunity and fraternity assuring the dignity of the individual and the unity and integrity of the nation.

The whole set of values for which the bureaucracy stands committed is under the threat of displacement in the name of liberalisation. That's why an ethical crisis is developing in the bureaucracy now. The objective of the good governance in India was set by Pandit Nehru in his soul-stirring speech in the midnight of August 14-15, 1947. It was "ending of poverty and ignorance and disease and inequality of opportunity". Mahatma Gandhi also prescribed a set of stiff yardsticks for judging the efficacy of public policies in a system of good governance. He said "Will it restore to him (the poorest and the weakest man) control over his own life and destiny? In other words will it lead to Swaraj for the hungry and spiritually starving millions?" To achieve these objectives we have the Directive Principles of State Policy in the Constitution, which are not justiciable but nonetheless are fundamental to the governance of the country.

The policies of economic reforms pursued by the central government since mid-1991 are often repugnant to Directive Principles of State Policy. A news item dated Washington, September 21, 1996 (published in the *Statesman*, Calcutta, on September 22, 1996) states India will be upbraided in the forthcoming Fund-Bank annual meeting, among other things, for its failure to "adopt an exit policy". Exit policy is totally repugnant to "right to an adequate means of livelihood" which the state is mandated to secure under clause (a) of Article 39. The Fund/Bank dictated Structural Adjustment Programme which mandates opening up of the economy and liberalisation has universally led to increasing concentration of wealth, income and economic power, dominance of multinational corporation in the domestic economy, accentuation inequality of income and asset holding and sharp deterioration of Human Development indicators. Human Development Report 1996 in the Box 2.7 captioned 'Liberalisation and Inequality' states: "Income inequality is clearly on the rise in many countries that have opened up. In 1970 income inequality was fairly low in Sri Lanka: the Gini coefficient was 0.35. When the country began to liberalise its economy in the late 1970s, the inequality rose dramatically. By 1990 Gini coefficient was 0.51 – an increase of almost half". Gini coefficient has moved adversely in China, Mexico and Chile. Clause (c) of Article 39 mandates that "the operation of the economic system does not result in the concentration of wealth and means of production". The policies persued by the government of India in this regard are totally contrary to what the Directive Principles mandate. It is not a case of deviation from the ethics of public policy determination. It is a clear case of violation of the basic principles of ordering our economic system as enshrined in the Constitution. The better among the bureaucracy are in moral confusion, the worse among them are making hay while the sun of liberalisation shines. In either case the casualty is good governance. The situation can be described by a medieval English limerick about the enclosure of the village commons by the nobles.[4]

The law locks up both man and woman
Who steals the goose from off the common,
But lets the greater felon loose
Who steals the common from the goose.

If one examined the structure of the Indian administration prior to the 73rd and 74th Amendments, one would be struck by two contradictory situations. At the central level and at the state level there is vibrant democracy with the parliament and the state legislatures enforcing accountability of the executive and demanding information through parliamentary interpellations and debates. The organisations are so vast and complex and operate in such a cloak of secrecy and cover that the desired degree

of transparency and accountability cannot be assured in all the cases. But, by and large, on any major issues political executives and through them the bureaucracy can be held accountable. But if one looked below the state level there was a total authoritarian system run entirely by the bureaucracy. That is one side. On the other, through enormous economic powers vested in the centre, over the years there had been a tremendous accretion of powers at the centre. Today there is far too much power at the centre; a great deal more than necessary in the states and virtually none at the local level where the people are. This disjunction between power and the people is at the root of the many ills of this polity.

Some of the main attributes of 'good governance' are accountability, both financial and political, transparency, easy access to information, popular participation in decision-making and implementation, responsiveness, efficient delivery system of services and goods, enforcement of rule of law supplanting the rule of whims and caprices of rulers whether stipendiary or elected, client/citizen satisfaction and an overall caring and humane ambience promoting an egalitarian and equitous social and economic order.

The system of bureaucratic administration below the state level singularly fails to satisfy most of these criteria. The search for an alternative to the 'steel frame' or the 'pig-iron frame' started shortly after independence but it was not done seriously because the existing system of bureaucratic administration served the interest of the new masters very well as it did the imperial overlords. I am not going into history. It is well known. There were stray cases of success of decentralised governance in some states but its overall impact on the Indian administrative system below the state level was not very telling. Rajiv Gandhi started a serious exercise to ensure that benefits of rural development reached the target group. His continuous tour of rural India and his direct talk and contact with the rural people, ethnic and minority groups brought about the realisation that something essential was missing in the vast administrative structure at the district level and below. That missing element was responsiveness. This lack of responsiveness was due to absence of accountability of the bureaucracy to the people it was to serve. Rajiv Gandhi found that while the civil services had the finest brains and the best administrative ability of the country, "the experience of the vast majority of our people at the grass roots has been that at the interface between the people and administration, the administration is unresponsive, inefficient, unsympathetic, often callous, sometimes even cruel to those whom they are meant to serve". It became clear that the underlying problem was not so much a matter of simplifying procedures or establishing a grievance redressal machinery but fundamentally of a systemic nature. It became apparent that "if our district administration is not sufficiently responsive, the basic reason is that it is not sufficiently representative."[5]

Third Tier of Governance

The central and the state governments are far removed from the masses. The bureaucratic district administration by its very nature got isolated from the people, "thus dulling its sensitivity to the needs of the people". Hence a fundamental change was called for. There had to be a third tier of representative governance at the district level and below to make the democracy real to the rural masses where power would be exercised within the visibility of the people and those who exercised power would be accountable to them. Downward accountability would make the system responsive. The present chasm between few elected representatives like MPs and MLAs and the bureaucratic district administration and the vast masses was conveniently filled by power brokers, the middlemen, the vested interests. "The power brokers have established their vise-like grip only because democracy has not functioned at the grass roots. Once the people have their own elected representatives from electorates as small as a hundred to five hundred persons, the source of power will lie only as far away as the panchayat ghar, not some distant state capital or even more distant capital of the country."[6]

The 73rd and 74th Amendments did bring about a third tier of representative governance at the district level and below. I am not going to discuss the details. The 73rd Amendment has the potential of establishing at least the procedural part of good governances. The decentralised system of elected governance has certain inherent advantages. "One is efficiency: decision-makers who live locally are likely to know more about local conditions, they should be able to match resources and needs more precisely. Another is accountability: when decision-makers live and work in close contact with users, they are exposed to more effective scrutiny and are under greater pressure to deliver the goods. There are also more opportunities for local people to participate in planning services and to pay for them through local taxes. Experience also shows that local governments tend to give higher priority than central governments to human development." In India the last point has a greater significance because of reservation of not less than one-third seats and elected offices for women and for SCs, STs and OBCs in proportion of their population to the total population. Adequate representation of women and dalits is going to make a qualitative change in the functioning of panchayats. I do not buy the usual male chauvinistic cynicism that women are mere proxies. There may be some cases of such proxy functioning but once women taste power they would assert their independence as is evident in many cases in West Bengal. The other fear is that in the absence of land reform and with the existing inegalitarian asset and wealth distribution, it might empower the powerful. While not discounting the possibility, with regular election and performance audit by the electorate the existing powerful would lose power and the transfer of power would take place.

It is not to be understood the panchayat provides panacea for all the evils of misgovernance. I would only assert that they have the potential for good governance at the local level provided they are institutionally, legally and financially supported by the existing power structure. But here lies the catch.

The 73rd Amendment defines panchayats as institutions of self-government. Article 243G which empowers the state legislature to endow powers and authority to panchayat clearly states that such endowment should "enable them to function as institutions of self-government". The concept of 'self-government' is not negotiable. Unfortunately this concept of self-government with its concomitant attributes are either not fully understood or very dimly appreciated. A study conducted by the Task Force on Panchayat of the Rajiv Gandhi Foundation noticed with grave concern that this basic ideology had been largely ignored in the recent state legislation. Hence it is necessary that all sections in such legislation which militate against this overarching objectives should be deleted or properly amended to make panchayats genuine institutions of participatory self-governments.

Panchayats cannot develop as genuine units of self-government without a drastic reduction and restructuring of central and state government apparatus especially in respect of items included in the XI Schedule. Stripping this enormous administrative structure of its overburden and shedding the excessive concentration of power at higher levels are essential prerequisites for the empowerment of the panchayats. The central government should immediately start an exercise to reduce its size and powers. To accelerate this process it should constitute a high power committee consisting of experienced and panchayat-friendly persons to give a report on the subject within a specified time frame. Principles accepted for restructuring of the central government should apply *mutatis mutandis* to the state government.

Some of the state Acts have made a mockery of allocation of power and authority to different tiers of panchayat. Some Acts have just reprinted the Eleventh Schedule for each tier. Some Acts have given the authority to the executive to delegate such power and authority to different tiers. One

or two Acts made a serious exercise in this regard. But actual devolution of financial, executive and legal authority and power to make the panchayats genuine institutions of self-government is yet to take place. The basic principles of allocation of powers and function among the centre, state and the three tiers of panchayats should be that what can be done at the lower level must necessarily be done at that level and not at a higher level. From another angle, one could devise a 'minimum needs' package for the centre and the states, the rest going to different tiers of panchayats. In a more restrictive way, the centre and the state should exercise only residual powers in respect of items included in the Eleventh Schedule.

Another point in this connection is that the Eleventh Schedule really indicates the floor. States can give much more. In fact the original and traditional functions of panchayats to resolve disputes has not been mentioned at all. At lower tiers of governance such powers of both criminal and civil nature should be given to them without further delay.

While accepting and welcoming the Planning Commission's role (though severly curtailed under the principle 'let the market decide') in setting national priorities and broad investment patterns in consultation with the states and the centre, the need for decentralised planning cannot be overemphasised. District-level schemes should be sponsored by the village or intermediate or district panchayats. These should not be handed over to them from above. Panchayats at these levels should have a reasonable percentage of Plan funds and other financial resources which should be totally untied so that they can use these resources on the basis of their own priorities and choice. If the central government were serious about devolution, we would like to see this principle clearly incorporated in the Ninth Plan now under preparation.

There are a large number of central and state Acts, regulations and subordinate legislation which militate against the required devolution of powers and functions to the panchayats. All these points require to be properly identified for remedial action by the central and the state governments. The Law Commission or a similar body of experts should be entrusted to do this job urgently.

While the Planning Commission is neither a constitutional nor a legal body, the 73rd Amendment has given a constitutional duty on the panchayats for the "preparation of plans for economic development and social justice". The point to note is that the panchayat cannot prepare any plan for economic development which does not ensure social justice. The concept of economic development through social justice has got constitutional recognition only in respect of the panchayats. The central government, it looks, is free to pursue economic policies which increase poverty, accentuates concentration of wealth and income – which the five years of economic reform has already done. Rural poverty ratio had increased by nearly 8 percentile points in the first two years of reform. Significant deterioration has taken place in the consumption share of individuals both in the lowest three and middle four deciles of population at the gain of top three deciles since 1990-91. We have a larger pool of unemployed persons at the end of the Eighth Plan than at the beginning. Real wages in agriculture showed a significant decline and even became negative for the skilled labour.[8] To cure these ills created through the reforms package, the prime minister declared on August 15, 1996 that central government would spend Rs 60,000 crore for rural development. How would government do so without a whopping increase in the fiscal deficit is a matter for government to decide. But my simple question is why do you pursue a policy which results in mal-governance and then try to cure the evil effects under electoral compulsion by spending astronomical sums, thereby creating more problems for fiscal adjustment.

There is another point before I close this issue. To curry favour with the MPs, the Rao government introduced a pernicious practice of granting rupees one crore to each MP annually for so-called local area development. It adversely affects the viability of the panchayat system. To strengthen the third tier of governance the central government should immediately stop this practice and give one crore of untied fund to each zilla parishad annually for the same purpose. It would show the central government's commitment to the panchayat system.

The 73rd Amendment does provide a fine format for good governance for the rural masses but it is doubtful how is it going to develop. Concerted popular movement is necessary for empowerment of the panchayat because the entrenched interests would not like to part with their existing power. International experience also indicates that. The *Human Development Report 1996* comments: "But a more general brake on decentralisation is that central governments have been reluctant to release to the local level either funds or decision-making power".[9]

I shall not dwell much on the governance role of the non-government organisations (NGO) and community groups currently called the civil society. Such organisations do render valuable supplemental services to government efforts by extending them to people or groups who would otherwise remain unserved. In our country Christian missionaries and the Ramkrishna Mission have been doing excellent service in spreading education and rendering health services in remote and distant regions among equally isolated tribal groups long before any government agencies thought of moving into these areas. Even now the presence of government agencies in many such difficult areas is either non-existent or very thin. These organistions also play a vital advocacy role, mobilising public opinion and community action and help shaping human development priorities.[10] In fighting oppression and injustice and exposing misdeeds of authorities, non-governmental organisations have been playing a significant role both in our country and abroad. The threat is that governments tend to co-opt them both internally and externally. There are instances of such co-opted organisations, though not many in number, working not only for the national government but also for foreign governments. Barring a few such organisations and a few corrupt bodies, the role of the NGOs in governance has been very positive.

Corporate Sector

The corporate sector is a more difficult area. It is nice to see that the corporate sector in India has become quite conscious of internal 'good governance'. The confederation of Indian industries has taken a lead and circulated a draft proposal entitled 'Corporate Governance'. What it is talking about is improvement of corporate management through greater degree of professionalism.[11] Certainly, well run corporations would have much less evil effects on the society with their respect for tax law, concern for environment and all that. But these are really not the major issues. The main issue is, could the private sector corporate goal of maximising profit be harmonised with public good. Could there be a matching of private interests of business organisations with public interest. On a purely theoretical plane, in a situation of perfect competition there could be such matching. But it would happen only in an Utopia. It is like the last stage in communism when the state withers away as all class conflicts cease making the state redundant. In reality we have distorted markets dominated by oligopolies or monopolies. Cartels, syndicates, trusts and conglormerates now determine the structure of the economy. In the corporate sector we have the slogan that what is good for General Motors is good for the country and since that country dominates the world economy it is good for the humankind. Obviously, in such a situation there would be a serious mismatch between the private interest of the corporate sector and the public interest.

With the gradual withdrawal of the Indian state from the economic arena on the ground of liberalisation, privatisation, deregulation, decontrol et al, the space vacated is being occupied increasingly by the corporate sector. It is not millions of small firms with more or less equal strength jostling among themselves in fierce competition to occupy the vacant space. It is the giant national

corporations and business houses who have already established themselves on the commanding heights with the giant TNCs either making entry or waiting for suitable moment for wholesale take-over. Since the liberalisation the executives of the Indian state, to quote Marx and Engels, have been behaving like "a committee for managing the common affairs of the whole bourgeoisie".

Public interest is not going to be served in such a situation. The mainstream economists and the liberalisers who claim to be the intellectual heirs of Adam Smith might pause for a while and ponder on what Adam Smith said on policy advice from businessmen.[12]

> The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it. (Adam Smith, *Wealth of Nations*, Book I, p 211.)

Could it be that the public in India is being subjected to just the sort of deceit and oppression that prompted Adam Smith's warning? I only raise the question. I refrain from giving any answer.

Since liberalisation the Indian government has been bending over backwards in its attempt to woo multinationals. There is a stiff competition among states to get TNCs located in their respective territories. There is an enormous volume of literature on transnational corporations (TNCs). The UN Library on Transnational Corporations has published 20 volumes collecting articles, papers and document from all over the world. There is an enormous bank of knowledge and information about what TNCs are, what they had done, and what they are up to. Perceptions differ depending on which side one is. Henry Kissinger thinks TNCs are engines of development. Lawrence Alschuler describes them as instruments of mal-development. Writing about the interface between TNCs and developing states Raymond Vernon, another authority on TNCs, states, "suddenly, it seems the sovereign states are feeling naked". Manmohan Singh, the former finance minister, in his first regular budget speech while inviting direct foreign investment said that he was not afraid of the East India Company. Singh is an erudite person. One has to take his words seriously. With the impressive recent historical record of cases in which the parent authorities have intervened against host countries whose domestic agenda included strong nationalistic policies towards TNCs, it is obvious that Singh's book of history did not contain these records. To remind this august audience, the most notorious recent examples are Jacobo Arbernz Guzman in Guatemala, Sadeq Mossadeq in Iran and Salvador Allende in Chile.[13]

It is neither the occasion nor is it my intention to give a discourse on TNCs. But I would record very briefly the nationalist and patriotic third world perception on the impact of TNCs, based on a Latin American experience. There are three major assertions about the relations between TNCs and host countries in the third world.

The first proposition is:

> The benefits of foreign investment are 'poorly' (or 'unfairly' or 'unequally') distributed between the multinational and the host or the country pays 'too high' a price for what it gets or the company siphons off an 'economic surplus' that could otherwise be used to finance internal development.

The second proposition is in four parts:

> Multinational corporations create distortions within the local economy. There are innumerable allegations of distortions, but four appear to occupy positions of pre-eminence in the literature. First, TNCs 'pre-empt' the development of an indigenous economic base by squeezing out local entrepreneurs in the most dynamic sectors of the host country economy. Second, TNCs employ 'inappropriate' capital-intensive technologies adding to host country unemployment. Third, TNCs worsen the distribution of income in the host country or even produce an absolute loss for the lower 40 per cent: Fourth, TNCs alter consumer tastes and undermine the culture of the host country.

The third proposition:

> Foreign investors prevent or subvert host country political processes (i) by co-opting the local elites; and/or (ii) by using their influence in their home countries to bring pressure to keep host governments 'in line', and/or (iii) by structuring the international system respond to their multinational needs to the determent of host authorities.[14]

These assertions with local variations have universal application including our own country. All of them are contrary to the concept of 'good governance'.

With the enthronement of greed and avarice as the sole determinant of economic action, a thickening dark fog of pig-ethics is blanketing the conscience of men. It looks that the buccaneers and privateers are having a free run of the economy since the liberalisation. Otherwise how could one explain the continuous and rhythmic oscillation between scam and scandal from mid-1991 to now? From the securities scam of 1991-92 through the swindle of Rs 3,000 crore in the disinvestment of shares of PSUs as reported by the Comptroller and Auditor General of India, to the bitter-sweet sugar scandal, through the Indian vanishing trick of Rs 133 crore to the latest multi-thousand crore hi-tech telecom scam, the economy is having no respite from piracy and pillage.[15]

Just before his assassination, that great humanist Abraham Lincoln expressed his fear saying:

> I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country...Corporations have been enthroned, an era of corruption in high places will follow, and the money power of the country will endeavour to prolong its reign by working on the prejudices of the people until the wealth is aggravated in a few hands and the republic is destroyed.[16]

To sum up we have a fairly sound format of good governance in an active parliament and state legislatures, independent judiciary, free print media, constitutionally guaranteed system of decentralisation and devolution of power to the third tier of governance at the district level and below with direct democratic accountability through the gram sabha and a small but growing and vigilant civil society. But, on the other hand, the values which are at the foundation of our republic are under assault through the process of liberalisation. Unless we reorient our economic and social policies on the basis of the principles enshrined in the Constitution we may not have the substance of good governance. We may, in the process, destroy our republic.

Notes

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3 Willilam W Boyer, 'Political Science and 21st Century: From Government to Governance', *Political Science and Politics*, March 1990.
4 York Welburn, 'Types and Levels of Public Morality', *Public Administration Review*, March/April 1984.
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7 UNDP, *Human Development Report 1996*, Box 3.2, p 74.
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9 UNDP, op cit.
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12 Trudi C Miller, 'What Adam Smith and James Madison Would Say about the American Political Economy Today', *Public Administration Review*, January/February 1992, p 71.
13 Theodore H Moran (ed), *Governments and Transnational Corporations*, Vol 7, UN, 1994, P 8.
14 Ibid, pp 86, 90 and 97.
15 D Bandyopadhyay, 'What Ails the Indian Bureaucracy' *Mainstream*, August 1994.

Improving Fertiliser Use Efficiency

Vidya Sagar

Strategic Issues in Future Growth of Fertilisers in India edited by Gunvant M Desai and A Vaidyanathan; Macmillan India, 1995.

RAPID growth in fertiliser consumption has been the cornerstone of agricultural growth in India. Growth in fertiliser consumption is estimated to contribute over 60 per cent of the growth in foodgrain production, albeit through its dependence on irrigation and HYV seeds. Its continuous growth in future cannot be overemphasised. However, the spread and the growth of fertiliser consumption has not been uniform across various regions. While the role of irrigation and HYV technology in promoting fertiliser use is uniformly acknowledged, much less emphasis has been given to improving the efficiency of fertiliser use. It is this perspective that underlies the collection of well researched studies.

The book is set out in the backdrop of an excellent overview by Rao and Gulati of Indian agricultural development. A salient feature of the Indian foodgrain sector is the growing gap in the supply and demand mainly due to a deceleration in the domestic demand for foodgrains. This deceleration, despite rise in per capita income and decline in relative price of foodgrain, has resulted in a change in food balance and opened up prospects for export of foodgrains where India has a comparative advantage. This, in turn, provides a major opportunity for further improvement in resource use efficiency in Indian agriculture. Productivity of all inputs combined accounts for over 50 per cent of output growth in the post-green revolution period.

The Introduction (Chapter 1) by Vaidyanathan and Desai provides an overview of the issues. While summarising the findings of the six studies included in the book and their implications for policy reforms, the Introduction sets the perspective on future growth of fertiliser in India. The salient features of growth in fertiliser consumption in India include: high intensity of fertiliser use in areas of assured irrigation along with a slower but significant diffusion of fertiliser use on unirrigated lands; wide variation across states, districts and crops both in terms of spread and intensity of use; compared to price factors, the influence of non-price factor is stronger on diffusion and intensity of fertiliser use; and more importantly, the efficiency of fertiliser use has been lower than the level attainable with available technology. This might even have declined over time.

Bulk of the unexploited potential to raise crop yields through fertilisers is largely concentrated in unirrigated areas. This requires far greater efforts and a more sophisticated approach than has been the case in the past. The key elements of the policy reforms, according to the authors, include (i) a vastly improved research and extension system to provide location specific recommendations on fertiliser practices in a highly diversified rainfed agriculture in order to improve its use efficiency through a more balanced nutrient use, (ii) timely and adequate supply of fertilisers to meet the requirements of such recommendations, and (iii) greater emphasis on moisture conservation and water management practices to improve efficiency.

The authors emphasise the need to reorient fertiliser price policies towards the promotion of balanced nutrient use. A review of the post reforms initiatives on fertiliser prices shows that prices of P and K were significantly increased to the detriment of nutrient balance. Production and distribution structure of fertilisers in India is characterised by a relatively stable supply (largely domestic) of N fertilisers in a controlled price regime. Supply of P and K, on the other hand, is subjected to wide international price variation. Such a heterogeneous structure of fertiliser supply requires greater initiatives for promoting nutrient balance.

I

The first three papers in this collection are set out in the framework of agro-climatic regions (ACRs) and discuss agricultural growth, fertiliser use and its efficiency in an all India perspective. The next three papers are regional studies on Gujarat and semi-arid tropics in India.

Through a cross-section analysis of the 14 agro-climatic regions, 43 agro-ecological zones and 275 districts, Desai and Rustagi, in their paper on 'Agricultural Growth in India: An Agro-climatic Environment Based Perspective' analyse the pattern, composition and determinants of agricultural growth across agro-climatic regions. The study observes a strong impact of agro-climatic factors on agricultural growth through their impact on yield increasing inputs in general and on fertiliser use in particular. Across climatic regions, faster growth of output is positively associated with a more efficient use of fertilisers. This should be an important reason for slower growth in fertiliser use in the high rainfall (1400-1600 mm) regions where the productivity of yield increasing inputs is the lowest. Although the study does not attempt analysis of imbalances in fertiliser use across agro-climatic regions, the policy implications strongly suggest the need for a more balanced use of fertilisers. Pointing out imbalance in the fertiliser practices of farmers in as developed a region as Punjab, it is observed that as large as 57 per cent and 37 per cent cultivators in 1981 and 1987 were using nitrogen alone in paddy cultivation.

The paper, 'Fertiliser Response Function Environment and Future Growth of Fertiliser Use on Wheat and Rice in India' by Gandhi, Desai, Raheja and Prem Narain, is a rigorous analysis of over 12,000 field observations from ECF. The study analyses estimated fertiliser response functions with N alone, and N and P in fixed ratio of 2:1 and NPK in the ratio of 2:1:1, to bring out both the importance and limitations of balanced application (p 71). The analysis examines fertiliser use efficiency in 51 districts in six geographical regions over a four-year period. In over 12 per cent cases in wheat and 15 per cent cases in rice the responses are statistically non-significant, implying zero respone or an absolutely unviable fertiliser application when only nitrogen is applied. The cases of questionable viability (fertiliser response below the critical viability limit of 5 in wheat and 3 in rice) with only nitrogen exceed 26 and 10 per cent, respectively. The number of unviable cases drops sharply as phosphatic and potassic fertilisers are used within nitrogen.

In wheat, the high incidence of below 5 initial response to N drops from 26 per cent district years to 6.4 per cent with NP and to 5.1 with NPK. Such balance, however, does not help in the western plateau, east-coast plateaus and hills and in Gujarat and Maharashtra. Similarly, balancing eliminates most of the non-viable initial response in rice. The marginal product at 100 kg of nutrients exceeds 10 in 15.4 per cent district years with N alone as against 27 per cent and 31 per cent with NP and NPK. However, at higher levels of application (200 kg) both in wheat and rice the marginal product with N alone turns out to be at least as high as with NP and NPK. In rice, for example, marginal product exceeds 6 in 23 per cent cases with N as against 17 per cent cases with NP and 16 per cent cases with NPK.

The study observes an unviable higher level of and nutrient imbalances in fertiliser use in the north (wheat) and in the south (rice). Simulating the effect of a change in the composition of nutrients from the present level to 2:1:1 along with a regional

reallocation of fertiliser consumption in favour of UP and central region would provide an additional 6 million tonnes of wheat Similarly, reallocation away from the South along with balancing may increase rice production by 15.4 million tonnes from an additional fertiliser consumption of 2.9 million tonnes.

Based on a large sample survey the paper 'Fertiliser Use Pattern during the Mid-1980s: Micro-Level Evidence on Small and Marginal Farmers' by Kumar and Desai analyses diffusion and intensity of fertiliser use across farm size, crops and irrigation status. Although the study reports widespread use of fertiliser across farm size and irrigation status, positive association between the three components of fertiliser use, namely, number of adopters, area fertilised and intensity of application and farm size is evident. Four sets of factors have contributed to the widespread adoption of fertilisers in the past. These include (i) greater awareness on fertiliser use, through both the extension and demonstration effect, as a substitute for scarce organic manure to sustain high yield levels, (ii) increasingly easy access to fertilisers, and (iii) growth in irrigation and spread of HYV. Logit analysis carried out to identify factors influencing farmer's decision on fertiliser adoption confirm the importance of farm size, HYV and irrigation as well as of access to credit. Awareness and use of fertiliser is not as great a problem during the 1980s as its discontinuous use and deficiencies in fertiliser practices leading to a lower fertiliser use efficiency. The authors recommend enhanced location specific research on fertiliser practices to fill this gap.

Although the study is planned with respect to agro-climatic regions, no attempt is made to bring out region specific characteristics in affecting fertiliser use pattern. This micro-level study could have provided sharper insights if the analysis was attempted in terms of 14 agro-climatic regions and would have complimented the macro analysis in Chapter 2 to provide a holistic picture.

Supply Side Factors in Promoting Fertiliser Use

Two subsequent papers focus on the role of supply side factors in promoting fertiliser growth. The paper by Nampoothiri and Desai, 'Demand versus Supply Factors in Growth of Fertiliser Use: Gujarat's Experience', focuses on the deceleration in the growth in fertiliser consumption during the 1980s. The growth rate of fertiliser consumption declines from 27 per cent in the 1960s to 10 in the 1970s and 6 in the 1980s. The growth in fertiliser consumption during the 1960s and 1970s is attributed to the creation of potential for fertiliser use, (i) by irrigation and HYV, and (ii) conversion of this potential to effective demand largely through supply side factors, viz, creating awareness and providing knowledge about and credit for fertiliser use, on the one hand, and providing a well organised supply and distribution system, on the other. In the 1980s such potential for the growth of fertiliser consumption was severely constrained. The momentum of growth, therefore, became critically dependent on tapping the unexploited potential mainly by increasing intensity of fertiliser use and promoting its diffusion in unirrigated and non-HYV areas. To be successful this required sharply focused and well co-ordinated efforts on extension, credit and fertiliser distribution system.

The strength of the fertiliser supply and distribution system that helped rapid diffusion during the 1960s and 1970s weakened during the 1980s due to a number of factors. This, according to the authors, was the main reason for the deceleration in fertiliser consumption and not an adverse price environment which was more conducive to fertiliser use during the 1980s than the earlier decades. Because of the virtual stagnation in potential creation through HYV-irrigation during the 1980s, a further growth in fertiliser use could be achieved by increasing intensity of fertiliser application which, in turn, critically depends on the improvement in fertiliser use efficiency. This comes out of their cross-section analysis at the district level. During the 1980s, the two supply side factors, viz, density of distribution network' and availability of distribution credit to co-operatives have higher correlation coefficient with fertiliser consumption than the demand side factors, namely, irrigation and HYV. What does not come out of their analysis clearly is the weakening of supply side variables. The study rightly emphasises the need to increase fertiliser potential through location specific adaptive research and better agronomic practices to improve fertiliser use efficiency.

However, its conclusion (p 158, para 2) that 'a deceleration in yield rates despite a sizeable growth in fertiliser consumption...' is rather vague. Yield growth results from a set of factors of which fertilisers is only one. Same quantity of fertilisers on a wider HYV and irrigation base would result in large yield growth. Declining efficiency of fertiliser use is some time estimated under wrong assumption, e g, $e_f = \Delta Y/\Delta F$ while it should in fact be $(\Delta Y - B_H\Delta H - B_I\Delta I)/(\Delta F)$ [see Sarma and Gandhi 1990]. In the past, the three inputs were growing simultaneously and the fertiliser responses did include the impact of a fast growth in area under HYV. The scope for rapid expansion of area under HYV during the 1980s was severely limited as has been argued by the authors also. Therefore, whatever is captured as fertiliser response during this period is different from the fertiliser response of the earlier periods which includes in fact the HYV effect also. If contribution of HYV and irrigation is eliminated from the composite fertiliser responses, viz, $\Delta Y/\Delta F$, the fertiliser (only) responses during the 1980s compare well with the responses during the earlier periods [Vidya Sagar 1995:A-164]. Fertiliser productivity, which includes the yield response to irrigation and HYV may be lower during the 1980s but not necessarily the fertiliser use efficiency as argued by the authors.

Notwithstanding the thrust of his argument on deceleration in the growth of fertiliser potential on unexploited potential, I wish the authors were a little more circumspect in emphasising the deceleration in growth rate of fertiliser consumption. For one, a comparison of growth during the 1960s (with an extremely low base) may not be comparable with the 1980s (para 1, p 137). On the other hand, if one ignores the short-term setbacks, one each during the mid-1970s and the mid-1980s, even the trend rate of growth during the 1980s (1981-90) is as high as during the 1970s (1971-80). The point to point growth rate in per hectare fertiliser consumption is higher (7.2) in the 1980s than in 1970s (6.3). It is erroneously computed in Table 5.7 as 9.3 for the 1970s and 6.5 for the 1980s. What has significantly happened during the 1980s is the growing imbalance in the nutrient use. However, as the authors themselves point out this is more due to a shift in cropping pattern against the crops using P and K (cotton and groundnut).

The study by Sah and Shah, 'Farmers Fertiliser Practices and Soil Testing Service: Evidence from Gujarat' aims at the analytical understanding of fertiliser practices of farmers with little irrigation and very high irrigation. Sub-optimal fertiliser use with respect to both level and composition (P:N ratio) is practised by farmers in unirrigated conditions in the absence of transfer of knowledge on optimum allocation by the extension system and sub-optimal fertiliser practices are observed even by farmers who receive their own field specific recommendation. The net return from fertiliser use based on field specific soil test was generally higher than from those based on either blanket recommendations or farmer's own practices. Still, adoption of soil test based recommendations did not exceed 33 per cent in any of the crops. The study observes that the farmers with better farming practices also follow soil test based recommendations while others tend to substitute better practices with higher fertiliser doses. On the supply side numerous deficiencies in soil testing services make it difficult to accept such recommendations.

The last paper, 'Soil Fertility Management and Fertiliser Use' by Desai, Rustagi and

Singh draws on the panel data from six villages in semi-arid tropics of India during 1975-76 to 1983-84. The study observes a persistent incidence of non-use of any nutrient. Sixty to 70 per cent of the total cultivated area in a year did not receive any nutrients and one-fourth of the sample farms did not receive any nutrient for as many as 5 to 9 years. Scarcity of manures is observed as a primary reason for non-use of nutrients. A decline in the non-use of nutrients is observed with the increasing use of fertilisers. Fertiliser use was not confined to irrigated or high value crops along. The findings are at variance with the commonly held view that the low nutrient need of crops in these regions are being met by manures and inter-cropping with legumes.

II

The large and growing gap between the potential and the actual impact of growth in fertiliser use on output (Introduction, p 4) needs to be analysed more systematically than has been done so far. Two factors may be relevant in this context – whether this divergence between the potential and the actual is due to (i) spread of fertiliser on inferior production environment with low (realised) responses even at lower application rates which should theoretically be high; and (ii) fertiliser use efficiency declines primarily due to a further increase in application rates (intensification) in regions of high application thereby moving towards the flatter part of the response surface. This is described in Chapter 4 as the major culprit for declining fertiliser use efficiency. Analysis of district level responses in Chapter 3 on the lines similar to those in Chapter 2 would have been more useful.

A major limitation of this otherwise excellent collection of insights into fertiliser use in Indian agriculture is the assumption that most of the ills afflicting fertiliser sector are apparently due to farmers fertiliser practices. Perhaps a paper on farmers perceptions on nutrient imbalance or excessive use would have significantly increased the value of this collection. For example, nutrient imbalance is seen as a major reason for the difference in potential created by irrigation – HYV – fertiliser combination and the realised benefits. While the importance of a more balanced nutrient use cannot be over-emphasised no attempt is made to analyse as to what causes such nutrient imbalance. Whether such imbalance is due to farmers ignorance, wrong messages by an inept extension network or by the macro-production environment characterised by unfavourable price regime, inadequate, unstable and untimely supply of irrigation and power or the supply of fertiliser itself. It is logical to believe that the farmer is a better judge of his micro-production environment and most of the initiatives have to be with respect to macro-production environment. The issue of unfavourable price regime towards the desirable nutrition balance is taken up in the Introduction (pp 17-20). However, the message on extension is far from clear. This point is brought into focus from my comments [Vidya Sagar 1992] on an earlier work by Sah et al (1992),

> The authors criticise the observed practice of over use of fertilisers in spite of a widespread network of soil testing laboratories in Gujarat and complain that the farmers have not responded to soil testing services. A careful reading into their results, however, shows a number of cases where soil test based recommended use is actually over use, with smaller yield, while over use observed by the authors is less than proper use, with higher yields and a further scope to increase production profitably (high value to cost ratio (VCR)). If excess use leads to higher than proper use yield rates, with a vast scope for further improvement in production (e g, VCR = 36), then there are reasons to doubt soil tests recommendations. If so, *this could be one of the reasons for not responding to soil test services about which the authors complain*. The other observation of the authors that a high extension index does not ensure better farm practices and fertiliser techniques on which the efficiency of fertiliser use lies, raises further questions about the extension services.

The overall thrust of such arguments on declining fertiliser use efficiency due to excessive and imbalanced fertiliser use apparently depends on the ignorance of farmers on balanced application or better management of inputs. This very presumption is reflected when authors in Chapter 2 (p 54) maintain '...There is growing evidence of various deficiencies in farmers fertiliser practices'. Pointing out imbalance in fertiliser use they observe that '... as large as 57 per cent of the cultivators in 1981 and 37 per cent in 1987 were applying *only nitrogen* in paddy cultivation in Punjab'.

A more realistic conclusion may result if one looks into the seasonal application of N and P and the chemical properties of such nutrients. While N is highly volatile and a larger part of its application is lost due to leaching and nitrification, P is more stable. Looking at the seasonal pattern of fertiliser application, the P:N ratio during rabi is at least twice as large as during kharif. It must be the stronger residual fixation of P in the soils that allows farmers a lower ratio during the following kharif season. Similarly, the critical observation that '...even more importantly, 75 per cent of these plots had received more than 100 kg of N, which indicates the possibility of nitrates leaching into groundwater...', needs some sobering. The very nature of irrigation (flood) in paddy cultivation would ensure leaching even at low Nitrogen levels. The high doses of N, perhaps, are needed to maintain higher uptake in view of high Nitrogen losses. Fertiliser use efficiency in 1987 was substantially higher than in 1981 is shown using these data on wheat [Vidya Sagar 1995: Figure 16, p A171].

Ignorance of the farmer, therefore, may not be the cause of most of the problems faced by the fertiliser sector. More so, in stable production environments where the farmers learned faster from their environment and respond quicker to changes in macro-production environment. If one goes by the HYVP evaluation surveys, response to P and K is not attractive even at moderate doses. This coupled with the distorted price policies could be a more prominent villain than the farmer himself.

Also, there is no apparent reason for the excessive obsession with the NPK ratio (Chapter 3). One does not feel easy with the results of the exercise that North could produce substantially more than the present level of production if fertiliser balance is changed to 2:1 or 2:1:1 from the present level. To argue that a uniform nutrient ratio of 2:1:1 can provide optimum balance across different agro-climatic conditions may be too optimistic. More so, when the ratio of N to P uptake exceeds six in wheat and three in rice and the fact that N is more volatile. The fact that marginal product of N at 200 kg per hectare exceeds six in 23 per cent district year in paddy as against only 17 per cent for NP and 16 per cent for NPK raises doubts about the validity of this ratio at higher levels of applications, at least in more efficient production environments. A uniform dose of NPK in the ratio of 2:1:1 is an unsustainable proposition and farmers would do better to apply their own wisdom in the absence of an efficient and responsive extension system. This is what they are, in fact, doing.

It would have been possible to infer more if the analysis was attempted in terms of the difference in optimal levels across districts within an agro-climatic region or across ACRs. As argued in Chapter 2, since more efficient use is positively associated with higher growth in agriculture via higher application rates, the route to higher agricultural growth should lie via higher application rates. Higher efficiency promotes higher application. It could be for this reason that fertiliser responses in more stable production environments are higher even at higher level of application. It would have been worth exploring, for example, as to which of the districts have fertiliser responses exceeding 10 even at 200 kilogram per hectare and why? (Table 3.10 and 3.16). Similarly, most of the farmers in the North may not be exactly applying excessive or imbalanced doses as has been argued in

Chapter 3. North is not a uniform region. Within the North 80 per cent of the observation in western Himalayas show zero response as against none in the trans Gangetic plains (Table 3.1). The re-allocation away from the north has to be specific whether away from trans-Gangetic region where fertiliser intensity is very high or away from western Himalayas (region 1). It has been argued elsewhere [Vidya Sagar 1995] that responses in trans-Gangetic region are far above the corresponding responses in UP under field conditions. Similarly, in rice South is not a uniform zone. Areas of poor efficiency needs to be distinguished from the areas of high efficiency both in UP and in the South for a meaningful analysis.

The ECF responses do not strictly represent actual field situation inasmuch as the field under the ECF gets the benefit of some expert advice by the agronomist (p 60). This is conceded even by the authors when they lower such responses in central and eastern regions (pp 84, 93) Naraina and Parikh (1987), similarly, lower the all-India fertiliser responses estimated from the ECF data, for wheat and rice by multiplying these by 0.7 and 0.4, respectively, to make it representative for the actual field conditions. For a more lively debate see Vaidyanathan (1978) and Parikh (1979).

At the back of all these pessimistic observations of declining fertiliser productivity lies the assumption that farmers, in the past, were always on the efficiency frontier and throughout moved along with frontier while increasing fertiliser application during last three decades. This is a rather unrealistic assumption. It ignores the fact that a production function is the highest efficiency surface and most of the farmers operate well below such efficiency frontier in general and during initial years in particular; and gradually move towards it even with constant input structure [Sagar 1991, 1993, 1995, Chapter 4]. For an excellent analysis of this issue and the related empirical evidence see Kalirajan and Shand (1994).

Notwithstanding the excellent quality of the work and the insights that are provided by the state studies, I cannot share some of the pessimistic conclusions about fertiliser use which are recurrent in a number of papers. Similarly, for reasons discussed above, I cannot also share the excessive emphasis on the suggested NPK ratios even though nutrient balance is a significant factor. The individual farmer, in my view, is an optimiser with respect to his micro-environment in the prevailing macro-production environment. He can certainly not be blamed for the wrong signals that are provided to him, particularly via fertiliser pricing policies.

There are a number of printing errors. On page 99, for example, the map does not delineates the regions and at the top right of the map Himachal Pradesh is shown where Arunachal Pradesh should be. On page 38 the period 62-64 is printed as 62-6.4. On page 61 Table 3.1 (second column) $N_2P_2K_2$ is written instead of $N_1P_2K_2$. Average response ratio in Table 7.15 on page 205 is wrongly computed. Pages 204, 214 and 221 are left unprinted in the book.

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REVIEW

Fall and Rise of Productivity in Indian Industry

Has Economic Liberalisation Had an Impact?

Sumit K Majumdar

In this study the author examines productivity trends in Indian industry for the period 1950-1951 to 1992-1993, and for the sub-periods: 1960-1961 to 1992-1993, 1970-1991 to 1992-1993 and 1980-1981 to 1992-1993, using the latest available Annual Survey of Industries (ASI) *data that have been released by the Central Statistical Organisation. Productivity is measured using a linear-programming based technique called data envelopment analysis. The results show that in the decade of the 1950s, industrial efficiency was relatively high; however, in the 1960s and 1970s there was severe retrogression in efficiency patterns. These patterns began reversing themselves only in the 1980s; while efficiency in the 1980s was no better than it had been in the 1950s, data indicate that Indian industry has reached its highest efficiency potential throughout the 1990s thus providing some evidence that the reforms seem to be working.*

I
Introduction

ECONOMIC and industrial growth is the result of the interaction of two key factors: investment in capabilities, which is a function of savings, and the productivity with which these capabilities are utilised. In searching for explanations of India's hitherto lack-lustre industrial growth, a low savings rate is not responsible, since that grew from 10 per cent to 25 per cent between 1950 and 1984. Therefore, one possible reason can be the productivity of the investments which were made. Inefficiency in resource usage and productivity is well-recognised as leading to substantial welfare losses [Harberger 1959], and for a state like India, with a multiplicity of socio-economic demands on its capital, how such limited resources are utilised assumes fundamental importance. While substantial investments can be a pre-condition for economic transformation, it is only the productivity of such investments which yields further re-investible resources. These generate surpluses, which then motivate entrepreneurs toward undertaking further industrial activity.

In a dynamic context, an approach where focus is on output growth rather than on the efficiency in generating such output ignores a basic concept: capital has an opportunity cost; if it does not yield a minimum return as a result of good utilisation, it is better used elsewhere. That efficiency in resource utilisation has to be given a center stage role in policy analysis cannot be denied, since dynamic efficiencies are critical in ensuring the industrial performance of a nation. In the Indian literature, there is now belated recognition that efficiency has a major role to play in ensuring industrial success. Nayyar (1994:3) writes that "Success at industrialisation is not only about resource allocation. It is as much, if not more, about resource utilisation and resource creation. The mode of utilisation of resources is a critical determinant of economic efficiency. The process of creation of resources is a crucial determinant of economic growth."

Extending prior research [Majumdar 1996a] that has examined productivity growth in Indian industry between 1950-1951 and 1988-1989, this paper documents productivity trends between the period 1950-1951 and 1992-1993. Specifically, new data for the years 1989-1990, 1990-1991 and 1992-1993 are used for evaluating whether the "reforms by storm" [Bhagwati 1993] that commenced in mid-1991 has had a discernible impact on the productivity of Indian industry. If the fundamental change that took place in industrial policy in July 1991 is truly a "policy switch" [Flood 1992], it can destroy the path-dependencies and inertia engendered in Indian industrial behavior in the previous four decades. With recently made-available data introduced into empirical analysis, it is possible to generate some prima facie evidence as to whether the recent reforms are working and Indian industry is actually making progress. The paper unfolds as follows. The next section describes the empirical analysis. The results are discussed thereafter and finally the paper is summed up.

II
Empirical Analysis

Data Description

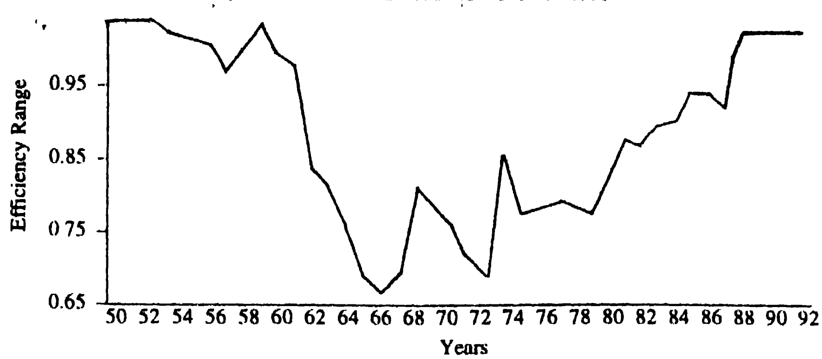
To calculate the relative inefficiencies in Indian industry for the period 1950-1951 to 1992-1993, data from 1959 onwards generated by the *ASI* and data prior to 1959 collated from the *Census of Manufacturing Industries (CMI)*, publicly available in data sets constructed by Chandhok (1990) plus supplemented by newer *ASI* reports, are used. The *ASI* summary results for the factory sector are used as the principal data source for the purposes of this study. From the data set available, labour and capital inputs as well as data on various output measures can be identified.

Disaggregation at the industry level is feasible only for the period 1979-1980 onwards, and a lengthy time-series of over 40 years can be prepared only using the summary results for the factory sector. The *ASI* and *CMI* data relate to the organised sector of manufacturing industry, and the *ASI* data have been used by Ahluwalia (1985) in studies of growth and productivity in the Indian manufacturing sector. However, while empirical studies using *CMI* data [Little, Mazumdar and Page 1987] do exist they are rare. There are some minor differences between *CMI* and *ASI* data. *CMI* data collection did not cover small scale plants, a lacuna rectified by the *ASI*. However, given that the thrust towards the small-scale sector commenced seriously only during the second plan years of 1956 to 1961, the *CMI* incorporated data on almost all the relevant units that comprised organised manufacturing industry in India.

Four inputs and one output are used. The inputs used are rupee values of fixed and working capital, actual number of workers and actual number of administrative and support staff employed. The output variable is: gross production, expressed in crores of rupees. Capital inputs, both physical and working capital, are also expressed in crores of rupees. Labour inputs are expressed in thousands of employees. To deflate variables expressed in rupees the wholesale price index is used; the capital inputs and the output values are then expressed in constant rupees, an approach consistent with much empirical literature.

Proper measurement of output and capital is important, and following Ahluwalia (1985) gross output value is used as the output variable. Capital inputs can be actual book-values of physical capital given in *CMI* and *ASI* data. In measuring capital input, the use of undeflated book-values amounts is inaccurate and the book value series is deflated by a price index. The weakness of using deflated data alone is that it does not

FIGURE 1: INDUSTRIAL EFFICIENCY – 1950 TO 1993



take into account assets of different vintages bought at different points of time. Therefore, following Goldsmith (1962) and Hulten (1990) the perpetual inventory method is used. That involves assuming for some base year an amount as beginning capital stock, and an annual rate of capital consumption. These assumptions, as to beginning capital stock and capital consumption are contingent on researchers' biases, and capital input valuations may vary between researchers However, the perpetual inventory method is a preferred mode of measuring capital inputs.

The data on Indian industries include capital stock data at net book value and depreciation. Combining these yields the gross capital stock. A real capital stock series is constructed using a perpetual inventory capital adjustment method, given by the equation: $K_t = (1 - D)K_{t-1}$ + deflated gross investment, where K_t is the capital stock to be used for each year, gross investment is the change in the firms' undepreciated capital stock since the preceding year, and D is the rate of depreciation taken at 10 per cent, which is suggested by Hulten and Wyckoff (1981) as a consistent representation of the weighted average rate, over asset categories, of the economic depreciation. The initial capital stock, K_0, equals the net book value of the capital stock for 1950. The approach is similar to the empirical approach adopted by Lieberman, Lau and Williams (1990).

Data for each year, other than for 1972-1973 are used. There are 42 observations covering the period 1950-1951 to 1992-1993. The *ASI* was not carried out for 1972-1973. Hence, there is a gap in the time-series of one year. The *Annual Survey of Industries* has been carried out since 1959 under the Collection of Statistics Act of 1953. It is the principal source of industrial statistics in India. Prior to 1959, a Census of Manufacturing Industries was carried out under the Industrial Statistics Act of 1942. The *ASI* extends to every part of the country, except some industrially-marginal states, and covers all factories registered under the Indian Factories Act of 1948. Essentially, all factories employing more than 10 workers and using power, or more than 20 workers and not using power have to report data. The coverage of the entire industrial sector by the *ASI* and *CMI* data, coupled with over four decades of time-series coverage, yields a data set which can be used for assessment of the impact of economic policies on industrial performance, though availability of more recent data would have been preferred.

EFFICIENCY ESTIMATION PROCEDURES

Data envelopment analysis (DEA) is used to measure the relative efficiency of the Indian industrial sector using annual observations for the years 1950-1951 to 1992-1993, a procedure used in earlier research [Majumdar 1995a]. DEA is a performance assessment tool useful for uncovering patterns of dynamic efficiencies. Using only observed output and input data for observations, the DEA algorithm calculates an *ex post* measure of how efficient each observation was in converting inputs to outputs, accomplished by the construction of an empirically-based production frontier, and by evaluating each observation against all the others which are included in the data set.

Following Farrell (1957), two main paradigms have evolved in the construction of frontier production functions. There is the parametric approach, based on estimating regression-based production functions, and the non-parametric approach, based on estimating linear programming models of relative efficiency. The advantage of the non-parametric approach is that no explicit functional form, or assumptions relating to technology needs to be incorporated, and it can handle multiple outputs and multiple inputs which no parametric technique can handle. The data need not all be quantitative, and qualitative measures can be used as outputs or inputs. Concomitantly, both nominal and physical values can be simultaneously used as outputs or inputs, because the aim is not to estimate functional parameters, *per se*, but relative measures of efficiency among observations. DEA is similar to other newly-developed techniques for performance assessment, one of which is demonstrated in Banker, Chang and Majumdar (1993).

DEA has two properties which are relevant for the present study. First, it is a technique for comparative efficiency measurement. Each observation is evaluated against itself and all other observations. Thus, the efficiency of each observation, relative to all others in the data set, can be estimated. Therefore, the results that are arrived at relate explicitly to the observations in the data set. In the present case, efficiency is evaluated only with respect to observations for Indian industry over time. No conclusions can be drawn about whether Indian industry is equally efficient, or inefficient, compared to the industrial sector of some other country. Comparative analysis, using data for India in conjunction with data for other countries, can help evaluate how inefficient India is compared to other countries and remains an agenda item to be covered in future empirical research Second, for each observation, a single efficiency statistic is calculated. This is a ratio measure of performance as to how efficient each observation was with regard to converting a set of inputs jointly and simultaneously into a set of outputs.

As developed by Charnes, Cooper and Rhodes (1978) [CCR] and extended by Banker, Charnes and Cooper (1984) [BCC], the Farrell output-input measure is generalised to a multiple output-input case using a fractional mathematical programme developed by Charnes and Cooper (1962), where the ratio of the weighted outputs to weighted inputs of each observation is maximised. Unlike in the regression-based parametric approach, where an explicit functional form for the production relationship is assumed, and a measure of technology can be incorporated as a variable in the overall regression, no assumptions about the underlying functional form or

TABLE . EFFICIENCY SCORES FOR INDIAN INDUSTRY

1950s		1960s		1970s		1980s		1990s	
1950-51	1.000	1960-61	0.960	1970-71	0.753	1980-81	0.817	1990-91	1.000
1951-52	1.000	1961-62	0.951	1971-72	0.714	1981-82	0.865	1991-92	1.000
1952-53	1.000	1962-63	0.820	1973-74	0 690	1982-83	0.858	1992-93	1.000
1953-54	1.000	1963-64	0.791	1974-75	0.846	1983-84	0.883		
1954-55	0.988	1964-65	0.729	1975-76	0.766	1984-85	0.889		
1955-56	0.983	1965-66	0.682	1976-77	0.775	1985-86	0.925		
1956-57	0.976	1966-67	0.667	1977-78	0.782	1986-87	0.924		
1957-58	0.939	1967-68	0.695	1978-79	0 779	1987-88	0.906		
1958-59	0.974	1968-69	0.804	1979-80	0.768	1988-89	1.000		
1959-60	1.000	1969-70	0.776			1989-90	1 000		

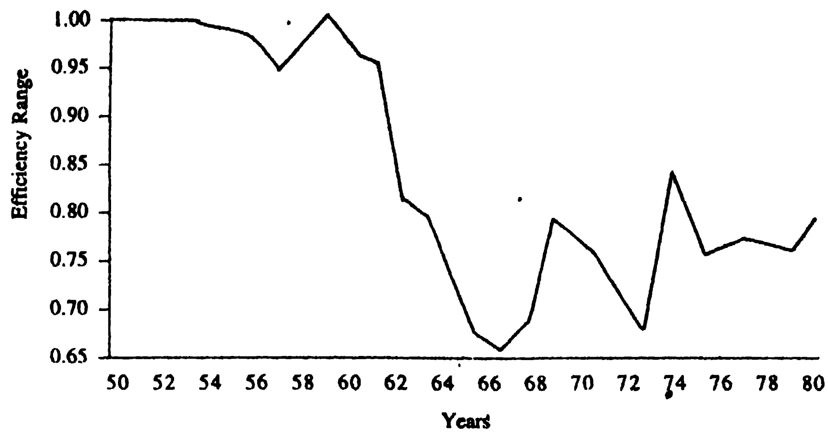
technology are made in DEA, since the objective of estimation is to measure the relative ability of each observation to convert a multiple set of inputs into a multiple set of outputs.

If some observations are indeed efficient because of superior technology employed then an explicit measure of technology quality has to be introduced in subsequent regression models where the dependent variable is the efficiency measure generated by a DEA model. This approach has been used in other research work [Majumdar 1995b] to explain how the adoption of new technology, superior to the installed-base of the existing older technology, has positively impacted on the performance of firms in the US telecommunications industry. A measure of technology quality, the proportion of electronic switches to total switches, was used as one of the regressors in a model explaining inter-firm variations in technical efficiency, which was calculated using DEA. In the case where aggregate data are used, as in the present study, time can be treated as a disembodied measure of technical change, as is often done in studies of aggregate productivity, but deriving an explicit measure of technical change, which is intuitively acceptable and appealing, for the economy as a whole is very difficult if not impossible.

In the CCR model, constant returns to scale are assumed and the CCR efficiency score is a total efficiency score for each observation. BCC (1984) show that the CCR score confounds the effects of technical and scale efficiency, and can be decomposed into a pure technical efficiency component and a scale efficiency component, with the BCC model score capturing the resource-conversion efficiencies feasible by observations irrespective of returns to scale considerations. Dividing the efficiency score resulting from the CCR model by the efficiency score resulting from the use of the BCC model yields a measure of scale efficiency, which is the ability of each observation to operate as close as possible to its most productive scale size [BCC 1984; Majumdar and Chang 1996]. Since there is much writing on the technique, analytical details with respect to DEA are not gone into in this paper. Readers wishing to learn more should read Bauer (1990), Banker (1993), Charnes, Cooper, Lewin and Seiford (1993), Majumdar (1995c), or Seiford and Thrall (1990).

DEA is useful in estimating x-inefficiencies. Since x-inefficiency is the manifestation of inability to extract maximal output from the given inputs, in a DEA sense those observations which define the frontier, attaining a score of 1 on a scale of 0 to 1, are x-efficient. These are the observations which have utilised their full potential. Therefore, observations which score less than 1 are

FIGURE 2: INDUSTRIAL EFFICIENCY – 1950 TO 1979



x-inefficient, and the efficiency rating for each observation denotes a precise estimate of the empirically-assessed x-inefficiency that may be present [Leibenstein and Maital 1992; Majumdar 1995c].

The advantage of DEA lies in its approach. DEA optimises for each individual observation, in place of the overall aggregation, and single optimisation thereafter, performed in statistical regressions. Instead of trying to fit a regression plane through the centre of the data, DEA floats a piecewise linear surface to rest on top of observations. This is empirically-driven by the data, rather than by assumptions as to functional forms. The only assumption made is that the piecewise linear envelopment surface is convex. Next, the efficiency score is a bounded efficiency measure in that a score of 1.000 represents optimal attainment. Hence, any observation with a score of less than 1.000 has measurable potential for improvement. Also, traditionally certain assumptions underlie statistically-driven regressions, and in parametric production frontier analysis. Banker and Maindiratta (1988) show that behavioural assumptions can be incorporated within DEA models, and that also the analytical properties of DEA and non-parametric production frontier analysis in econometrics are equivalent.

DEA procedures are used to generate BCC efficiency scores using Indian industrial data for the period 1950-1951 to 1992-1993. An efficiency score for each observation is computed relative to the efficiency of all other observations and itself. In other words, the efficiency of industry in 1950-1951 is computed relative to the efficiency characteristics for all the other 41 observations up to 1992-1993, and so on. A set of relative efficiency scores for almost all of Indian industry is available for the entire period: 1950-1951 to 1992-1993.

III
Discussion of Results

The BCC efficiency scores are listed in Table 1 and the overall efficiency trends are displayed in Figure 1. From Figure 1 it is noted that Indian industry has not progressed in becoming continuously efficient over time, if a monotonically-increasing time trend is taken to indicate progress. While Figure 1 and Table indicate that the overall trend in efficiency is one of decline and rise, there is significant heterogeneity visible in the efficiency patterns within each of the four decades studied. Therefore, the overall fall and rise can be disaggregated into periods of no decline, sharp declines, recovery and progress. These trends are visible from Figure 1.

EFFICIENCY PATTERNS IN 1950s

A decade-specific analysis shows that through the 1950s Indian industrial efficiency was high compared to its performance in the 1960s, 1970s and most of the 1980s. Efficiency patterns only showed a resurgence in the late-1980s. Fortunately, this resurgence has continued into the 1990s so far. Recollect that the 42 observations are being compared to each other. The observations which are frontier definers or the most efficient years are: 1950-51, 1951-52, 1952-53, 1953-54, 1959-60, 1988-89, 1989-90, 1990-91, 1991-92 and 1992-93 when efficiency in output generation is assessed. However, for over a quarter of a century, between 1961-1962 and 1987-1988, efficiency was grossly low compared to what Indian industry had been capable of attaining in the 1950s, as shown by the data, or it is capable of attaining as is shown by data for the 1990s. Between 1954-1955 and 1959-1960 there were small dips in efficiency, but the efficiency scores for these years were always over well over 0.90.

EFFICIENCY PATTERNS IN 1960s AND 1970s

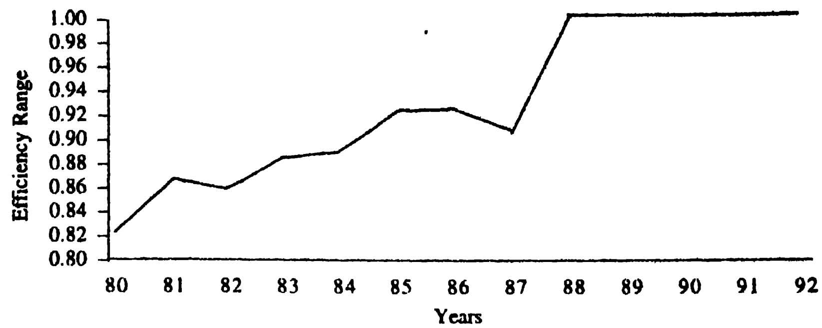
The table shows that the largest drop in efficiency took place in the 1960s and the early 1970s. Efficiency declined dramatically between 1960-1961 and 1973-1974. The 1960s are years when macro-economic factors were unfavorable to India [Joshi and

Little 1993]. Foreign exchange crunches worsened, with an import-substituting autarkic regime going into place. During the 1960s there were shortfalls in agricultural production, leading to demand-side imbalances for the industrial sector. There was a severe drought in 1964, with spillover effects of its impact into the years 1965, 1966 and 1967, as a result of which demand shortfalls were likely to constrain industrial growth and productivity. Arguments have been advanced that it does not serve much purpose to consider high inefficiency as a performance criteria if capacities are underutilised, since unfavourable efficiency scores will follow as a statistical result [Nayyar 1994]. Capacity utilisation is likely to be low when there is a demand shortfall, but that assumes demand shortfalls in both domestic and export markets. If only the domestic market is targeted, then it is possible that demand shortages will exacerbate inefficiencies. But the non-targeting of external markets as a consequence of which high production volumes, which lead to learning economies and associated economies of scale, which are the hallmarks of South Korean, Taiwanese and modern Chinese industrial growth, are not gained is a policy failure which has arisen because of the export pessimism in India.

Coupled with purely looking at the internal market as the driver of volume, and then limiting participation in this market to incumbents, who, thereafter, face no entry threats, reduces incentives to be efficient. It is well known that the policy regimes in place in the 1960s is characterised by the perfecting of the 'licence raj' [Ahluwalia 1985; Bardhan 1984; Bhagwati and Desai 1970; Bhagwati and Srinivasan 1975; Marathe 1989; Rudolph and Rudolph 1987] which allowed incumbent industrialists to make hay even in a cloudy environment. As the administration of the controls-based 'licence raj' was being perfected in the 1960s, there was a major drop in efficiency from 1961-1962 to 1966-1967. The drop is extremely significant. From a reasonable position, with a score of 0.960 in 1960-1961, industrial efficiency dropped dramatically to a score of 0.667. This is the lowest noted efficiency score in the entire study. There were marginal improvements up to 1968-1969, but significant drops thereafter. The evidence points not only to a major regression away from the scores that were achieved in the 1950s, but an inability to catch up.

Mohan and Aggarwal (1990) list how, in the decades of the 1960s and 1970s, control over resources got operationalised into a number of steps that had to be gone through by an entrepreneur before production could commence. There were many major and comprehensive controls which had been negotiated by any industrial unit. These

FIGURE 3: INDUSTRIAL EFFICIENCY – 1980 TO 1993



included, *inter alia*, procedures relating to acquiring a letter of intent to start an industrial firm, capital goods imports clearances, foreign-technology collaboration clearances, capital issue clearances, raw materials import clearances, essentiality clearances, indigenous non-availability of equipment and material clearances, monopolies clearances, small-scale sector clearances and clearances for locating in non-municipal areas. The multiplicity of administrative hurdles not only reduced flexibility in launching projects, but inevitably tended to increase project and production costs.

That the industrial policy system permitted administrative excesses to take place, which in turn fostered patronage and rent-seeking, has been earlier commented on, *inter alia*, by Bardhan (1984), Bhagwati and Desai (1970) and Bhagwati and Srinivasan (1975). Bhagwati (1993:49) has written "Few outside India can appreciate in full measure the extent and nature of India's controls until recently. The Indian planners and bureaucrats sought to regulate both domestic entry and export competition, to eliminate product diversification beyond what was licensed, to penalise unauthorised expansion of capacity, to allocate and prevent the reallocation of imported inputs, and indeed define and eliminate virtually all aspects of investment and production through a maze of kafkaesque controls. This all-encompassing bureaucratic intrusiveness and omnipotence has no rationale in economic or social logic; it is therefore hard for anyone who is not a victim of it even to begin to understand what is means."

Similarly, during the rest of the 1970s efficiency continued declining, albeit at a lower rate. Negative macro-economic forces notwithstanding, the policy regimes in place in the 1960s and 1970s must account for a large share of the inefficiencies noted. Because every major strategic and operational decision was relegated to the bureaucracy in New Delhi, even if a licence had been obtained, there were no factors over which entrepreneurs had control. Licensing allowed a finite market size to be made available to each entrepreneur who succeeded in acquiring a licence. Hence, there were no incentives for survival in a competitive battle-ground. How the officially-sanctioned market was to be served was also dictated to by the authorities. Thus, there were no avenues left for industrialists to display any creative or craftsmanship skills, for example in product differentiation. Since the government dictated all strategic and operational decisions, firms merely had to go through the motions of undertaking industrial activity, as recounted by Bhoothalingam (1993), a former very senior civil servant.

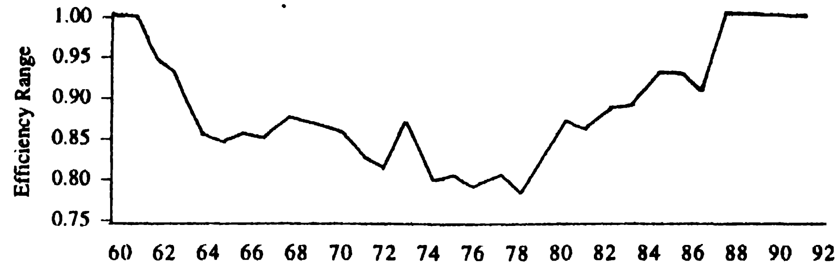
That Indian industry got away with exerting minimal effort seems evident, living the "quiet life" [Hicks 1935], because there were no reasons to minimise costs or strive for superior performance. The impact of legitimised market pre-emption and day-to-day interference by government, on the other, are reflected in the patterns of extremely low efficiency. Bhagwati (1993:54) has noted the following, in his evaluation of the outcomes from industrial policy: "The Indian embrace of bureaucratic controls was also encouraged by additional objectives, none of them served well by the control system in practice. One was the prevention of the concentration of economic power, by licensing the creation and expansion of capacity. But, if monopoly power was to be reduced, the virtual elimination of domestic and foreign competition (i e, the elimination of the 'contestability' of the market) was hardly the way to do it."

The policies of the 1960s continued well into the 1970s. A more detailed blow-up of part of Figure 1 is shown in Figure 2. Figure 2 shows the productivity trends between 1950-1951 and 1979-1980. The steep fall in productive efficiency in the three decades is sharply brought out by Figure 2. The years between 1960-1961 and 1979-1980 display policy continuity, though the political scenarios were different, and in the mid-to-late 1970s there was an exacerbation of the role of government as an influencer of micro-level decisions. Between 1965-1966 and 1980-1981, when a structural upswing in efficiency began, patterns of efficiency moved up and down. Two rising peaks of rising efficiency are, however, noted in 1968-

1969 and for the period 1974-1975 to 1976-1977. It is interesting to speculate on the potential causes.

During the late 1960s there was a threat to industry of possible stringent monitoring, following the recommendations of the Industrial Licensing Policy Inquiry Committee. In early 1969 Indira Gandhi nationalised a significant portion of the banking industry. There was a clear threat that other industries or sectors of the economy could follow suit. The administration could turn authoritarian. The years 1975-1977 saw the presence of an 'emergency' situation which did provide micro-level incentives, certainly fear, to industry to become more efficient. Following major political unrest, which was put down firmly by the government, the administrative regime did turn authoritarian. During these time-periods policy pressures seemed to be devolving on industry to behave less profligately, with concomitant internal pressures engendering efficiencies. Nevertheless, in spite of such 'positive' blips, Indian industry has gone through two decades of retrogression in capabilities in the period 1960-1961 to 1979-1980.

FIGURE 4: INDUSTRIAL EFFICIENCY – DATA FOR 1960 TO 1993



EFFICIENCY PATTERNS IN 1980s

The 1980s have been referred to as the years in which micro-level forces were recognised as being important to industrial and economic progress [Marathe 1989]. After falling between 1976-1977 and 1979-1980, from 1980 onwards efficiency patterns begin to show an upward-rising trend, culminating only in 1988-1989 being a frontier-defining or an efficient year. During the 1980s efficiency increases have been significant, as the table shows. Figure 1 reveals almost a monotonic increase in the technical efficiency scores. Figure 3 is a blow-up of a part of Figure 1 for the period 1980-1981 to 1992-1993. The steep increase in productive efficiency is evident from Figure 3. Between 1980-1981 and 1988-1989, the annual productive efficiency scores rise from 0.817 to 1.000. Such a rise is steady, and there are no major dips in the score between any pairs of years.

Opening up of the market to foreign technology purchases, allowing plants with sufficient economic scale to be established, and encouraging the establishment of 'sunrise' industries are characteristics of the policy environment from the early 1980s [Marathe 1989]. In import licensing, particularly with respect to capital goods, the realisation that India had to learn skills and adapt new technology from abroad led to significant lessening of import restrictions. This occurred from the early 1980s, after a Committee on Imports-Exports Policies and Procedures had reported. The realisation that industry faced was: business practices as usual in managing the labyrinthines of bureaucracy were somewhat less critical than organisational prowess needed in managing operations, production processes, marketing strategies, and the onslaught of potential competition. Potential changes in incentive structures and in the factors which guaranteed industrial survival meant that an efficiency orientation might begin to carry a premium.

At a micro level, there were many firms which had pre-empted capacity in the 1970s. This meant that large quantities of capacity were installed, both legally and in contravention of licence provisions in the 1960s and 1970s. Hence, surplus capacity abounded. In the early 1980s, the existence of surplus capacity was ratified. The existence of such surplus capacity may have had some impact on the drop in efficiency in the 1960s, and particularly the 1970s, since capacity in place was not utilised to generate output as there were penalties for doing so. Thus, another reason for the efficiency catch-up in the early 1980s, along with the changed policy scenario, is the utilisation of existing capacity already in place for actual production purposes.

While the efficiency growth of the 1980s looks relatively high, the 1980s are being compared to the three prior decades: 1950s, 1960s, and 1970s. Relative to the performance achieved in the 1950s, performance for the 1980s is lacklustre. For instance, the average efficiency score in the period 1950-1951 to 1959-1960 was 0.986, while in the period 1980-1981 to 1989-1990 it was 0.907. Hence, though there has been an efficiency spurt in the 1980s, it has only been to catch up with what was once attained in the 1950s. Indian industry has shown a decade of relative progress in the 1950s, two decades of severe structural retrogression, in the 1960s and the 1970s, and a decade of catch-up in the 1980s.

EFFICIENCY PATTERNS IN 1990s

For the observations belonging to the 1990s: 1990-1991, 1991-1992 and 1992-1993, efficiency scores of 1.000 are noted. This implies that each observation is a frontier-defining observation which is maximally efficient relative to other observations in the data set. In other words, Indian industry has attained an optimal efficiency level in the 1990s relative to its performance in the 1960s, 1970s and most of the 1980s. While *ASI* data for subsequent years (1993-1994; 1994-1995; and 1995-1996) have not yet been released, the preliminary conclusion is that the 1991 reforms have had an efficiency impact. Much has written about the nature as well as the various specific aspects of the reforms; therefore, further details are not recounted in this paper. What is particularly revealing from the data analysis is that the rise in the productive efficiency scores that took place in Indian industry since the 1980s has been not only sustained in the 1990s, but Indian industry has reached relative optimality in its performance over time in the 1990s. The average score in the 1990s is 1.000.

Output growth is one dimension of industrial performance, and industrial output has grown rapidly in the 1990s. This empirical phenomenon has also been the subject of much writing in the popular press. If, however, consumption of inputs rises at a faster rate than the rate at which output rises then such a trend is a sure prescription for industrial bankruptcy in the not-too-distant future. Therefore, efficiency and productivity growth is a qualitatively much more critical and important variable that captures the innate capabilities and dynamism of a country's industrial sector. Output growth may take place because the size of the overall market is expanding. But efficiency growth occurs because industrial capabilities are being continuously enhanced. At a micro-economic level, such efficiency growth is critical if industrial expansion is to take place. Without efficiency growth, countries tend to lag behind in the global national income stakes. Countries in which there is high industrial efficiency growth tend to forge ahead in generating larger amounts of national income which support superior standards of living.

With respect to late-19th century industrial growth in the US, Chandler (1990) shows how important the attainments of functional

efficiencies were behind the growth of industrial enterprises which catapulted the US into being the major industrial power in the world. No doubt, the US market was large and this permitted scale economies to be attained. Nevertheless, strategies to enhance functional and technical efficiencies were simultaneously implemented, leading to major overall productivity gains. Amsden (1989) recounts a similar story in respect of the South Korean experience in the 20th century. For South Korean firms, continuous functional efficiency-attainment has been the principal driver in enabling them to acquire competitive advantages which have been translated into global market share.

The results presented in this paper, which addresses an important issue with respect to Indian industrial performance, therefore, suggest that Indian industry might have the ability to display sustained efficiency growth necessary for furthering local industrial progress. But whether Indian firms will ever be as competitive as firms in OECD countries or South Korean and Taiwanese firms is open to question. Preliminary results of a comparative study (not presented in this paper), involving analysis of industrial productivity between India and seven other OECD countries for the decade of the 1980s, indicate that Indian industrial productivity is less than 15 per cent of the OECD average. Thus, Indian industry still has an enormous amount of global catching-up to do. Even doubling of productivity will not make Indian industry half as productive, or, therefore, as competitive, as the industrial sector of OECD countries.

Some Additional Efficiency Results

The results obtained from a DEA model is sensitive to perturbation of the data. Inclusion of additional observations or removal of some observations may alter the results. Therefore, to test whether the results obtained for the years 1990-1991, 1991-1992 and 1992-1993 are stable with respect to the inclusion or omission of different years' observations, a series of additional efficiency models are estimated. Specifically, three additional models are estimated: (1) an efficiency model using data only for the years 1960-1961 to 1992-1993; (2) an efficiency model which uses data only for the years 1970-1971 to 1992-1993; and (3) an efficiency model which uses data only for the years 1980-1981 to 1992-1993. The results of such subsidiary data analysis are also displayed graphically, in Figures 4 to 6. As these figures show, the efficiency scores for the years 1990-1991, 1991-1992 and 1992-1993 are still 1.000 in each of these three additional models. Therefore, the results obtained for the 1990s are robust to variations in the structure of the data.

Figure 5: Industrial Efficiency – Data for 1970 to 1993

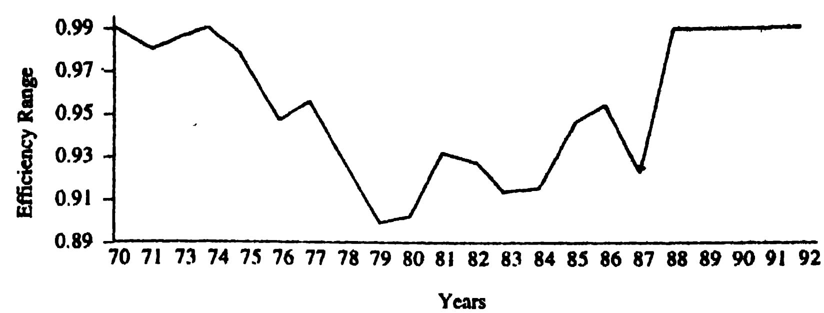
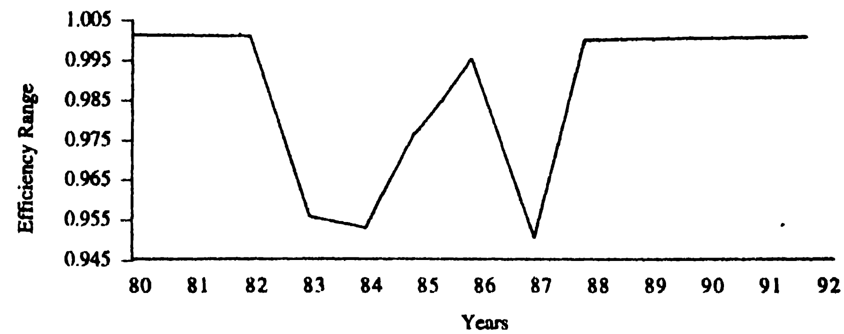


Figure 6: Industrial Efficiency – Data for 1980 to 1993



IV
Some Concluding Remarks

Guha (1990) notes that the balance of opinion on the relative success of market mechanisms versus control over economic activities rests on the ability of one system to mobilise incentives versus another. The issue of whether free-market competitive forces or command and control regimes generate the right incentives so as to reduce inefficiencies depends on the nature of policies and the way they are implemented. Whether Indian policy regimes have marshalled the right sorts of incentives which influence economic agents to maximise efficiencies is an empirical issue. In this paper patterns in the efficiency existing in Indian industry was analysed for the period 1950-1951 to 1992-1993. Till mid-1991, though various reforms had been tried out since the 1980s, there was broadly a command-and-control industry policy regime in existence. The availability of data for the years 1991, 1992 and 1993 has enabled an assessment of whether the reforms, which involved a shift to open-market mechanisms for regulating economic activity, have had an efficiency pay-off in comparison with past years' efficiency patterns.

The analysis of efficiency sheds light on whether economic progress is taking place, since efficiency patterns reflect the micro-capabilities of the industrial sector of a nation. In countries where government policies have a strong impact on industrial behaviour, the impact that policies have on observed efficiency patterns yields major insights into the success of these policies. The way policies are administered can also lead to inefficiencies. Even when there is significant government control over industrial progress inefficiencies may not result, as South Korean productivity growth shows. Provided entrepreneurs are given targets, reasonable time to meet them in and then they are monitored, they can decide what their operational objectives ought to be and utilise their organisational capabilities in meeting targets [Amsden 1989].

On the other hand, policy administration can be ad hoc and dilatory. Lack of monitoring and follow-through, or political factors, can be mediating influences in how policy is actually administered. At the level of the firm, long-range views of strategic decisions disappear; furthermore, motivation to be innovative is also absent because of uncertainties that policy regimes may foster [Leibenstein 1969], and is replaced by rent-seeking behavior [Krueger 1974]. With regard to the Indian experience, Bhagwati (1993:60) writes, "I should also add that the deadly combination of industrial licensing and controls at home with import and exchange controls externally, effectively cut off the rigours of competition and made the creation of a rentier, as against an entrepreneurial, economy more likely. X-inefficiency was certainly to follow, with only the exceptional escaping from the wrong set of incentives."

The efficiency results show that as industrial policy became regulation-oriented in the 1960s efficiency dropped steeply. As the regulation and control regimes turned

authoritarian in the late part of the 1960s and mid-1970s, there were occasional spurts in the efficiency scores. These were notable when threats of stringent monitoring were felt in the industrial sector, notably in the periods 1968 to 1970 and 1974 to 1977. Efficiency scores started rising only in the 1980s when tinkering with the reforms process started. But the increase in efficiency that has taken place in the 1980s is merely a catch-up with the efficiency levels that were attained in the 1950s.

Aims of the 1991 industrial policy reform include the enhancement of market contestability, a factor which significantly improves x-efficiency [Leibenstein 1976], and a reduction in the role of the state as a micro-manager of industrial progress. The post-1991 relaxation of rigorous controls both on the production capacities that firms can put into service specific market segments, and on market entry by new domestic and foreign competitors have served to increase market contestability in India. Even if actual market entry might not occur for some time, the threat of potential competition is often enough to induce efficiencies. Indeed, Schumpeter (1975:85) had said that "It is hardly necessary to point out that competition of the kind we now have in mind acts not only when in being but also when it is merely an ever present threat. It disciplines before it attacks. The businessman feels himself to be in a competitive situation even if he is above in his field, or if, though not alone, he holds a position such that investigating government experts fail to see any effective competition between him and any other firms in the same or a neighbouring field." Hence, even monopolists feel entry threats and exacerbation of such entry threats over time can induce efficiencies in industry.

The reforms process has not only exacerbated entry threats for the sitting incumbents in Indian industry, but the environment is equally competitive for new entrants. Attainment of efficiency is a key survival criterion in such situations, and the Indian reforms have so far yielded positive efficiency outcomes. These positive outcomes are noted for the 1990s, relative to the low efficiency levels that were observed for the 1960s, the 1970s and the early and mid-1980s. These were the periods when Indian industry was reeling from the effects of the command-and-control based industrial policy regime. Thus, relative to past industrial performance, the liberalisation process seems to have had a positive impact on current Indian industrial performance.

A number of future research programmes on Indian firms' behaviour and performance can be undertaken; however, a specific aspect of firm-level behaviour that ought to be researched with Indian data, and on which there is no evidence, is suggested. A major theoretical implication of the environmental change that occurs with economic liberalisation is that the gradual opening up of markets induces firms to improve resource utilisation because the onset of competitive forces destroys monopoly rents and replaces these with efficiency rents. In an evolving competitive environment a greater volume of information emerges [Hayek 1945]. Such factors alter resource accumulation strategies within firms and changes take place in firms' entrepreneurial capabilities [Kirzner 1973], leading to adoption of new technologies and work practices. The adoption of technological and organisational innovations have a very large impact on productivity at the level of the firms. In the literature, a bandwagon or imitative process at work among firms is associated with entrepreneurially-oriented behaviour [Leibenstein 1950], and a number of contemporary empirical studies [Ghoshal 1988; Mahajan Bettis and Sharma 1988; Majumdar 1996b; Orru, Biggart and Hamilton 1991] have found firm-level behaviour to be consistent with the bandwagon-jumping hypothesis. Such a process leads to the enhancing of firm-level capabilities, which subsequently impacts on how resources are utilised within firms, leading to superior performance of industry as a whole.

Firms are not necessarily rational and calculating in their decision-making, but rely on heuristics [Nelson and Winter 1982]. One heuristic can be to do what other firms do, and there are several reasons why bandwagon influences arise. The first relates to reducing potential uncertainties which arise because the environment is fluid and changing. There is the need for ambiguity reduction. Ambiguity can arise because of a lack of clarity regarding an assessment of the risks and costs, versus the benefits, of adopting a course of action [March and Olsen 1976]. If such ambiguity levels are high, firms have a lower threshold of taking adoption decisions based on their own analysis. Such decisions are more likely to be influenced by whether or not compatriot firms are adopting an idea, since if they are doing so some of the uncertainty for the converting firm is reduced.

Similarity in managerial outlook leads to the emergence of bandwagon influences [DiMaggio and Powell 1991]. Within a homogeneous industry context there is likely to be similarity of outlook among members of management teams within firms. Another reason is that managers are risk-averse and try to avoid the worst-case scenario even if the best-case scenario is sacrificed in the process [Kahneman and Tversky 1979]. Bandwagon influences occur because of a perceived threat of a loss of advantage. If a new idea is not adopted and is successful, there is the possibility for a non-adopter's performance to fall below average. Given such a situation, bandwagon influences are felt to keep up with expected average performance levels, otherwise progressive conversion by compatriot firms increases the risk for a non-adopter's performance to fall below average. In these circumstances, conversion pressures are strong since an adopter's performance will approach the average whether the idea in question fails or succeeds.

The economic liberalisation that has taken place represents, for India, a radical natural experiment which has significant ramifications in changing firms' behaviours and the strategies that firms adopt. These behavioural changes have significant productivity connotations. Micro-econometric studies of firms' behaviour, given a changing economic environment, are necessary so as to assess whether the behavioural assumptions that ought to implicitly underlie the policy changes that have taken place are validated by the actual outcomes. The policy change that has taken place in India in the 1990s does significantly alter the environment for firms, enhancing potential munificence and opportunities on one hand, but also enhancing uncertainty and ambiguity levels much more, on the other. In this changing context, assessing whether firms' behaviours are indeed consistent with the bandwagon-jumping postulates, then, becomes one research topic that can well be researched with the available data on Indian firms.

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Industrial Pricing and Growth Fluctuations
Some Tests

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This paper examines the relationship between the mark-up and activity, for disaggregated industrial sectors in India. Mark-up pricing is shown to be consistent with profit maximisation, and the theoretical hypothesis about pricing behaviour is tested empirically.

The issues addressed are important because the mark-up is a major component of the inflationary process. Understanding variations in it will help to understand inflation. Secondly, the mark-up is also the profit share, and as such affects both the savings and investment decisions, and influences medium-run growth or macro-economic activity. An implication for policy, is the possible stagflationary consequences of a demand squeeze, especially a cut in investment. In the absence of a supply shock, inflation is likely to be lower and growth higher when demand for industrial goods is high.

I
Introduction

THE paper examines the relationship between the mark-up and activity, for disaggregated industrial sectors in India. It also tests a theoretical hypothesis about the nature of this relationship. It is shown that under certain conditions mark-up pricing is equivalent to neo-classical optimal pricing. The mark-up is not ad hoc.

Earlier writings in this area have followed the traditional macro paradigm where short-run fluctuations were separate from a long-run trend rate of growth. The proponents of the debate have taken up positions on whether the short-run mark-up is pro- or counter-cyclical. If marginal cost rose as output expanded, variability in prices should exceed that in output, with prices smoothing output and absorbing shocks. The observed larger variability in output becomes difficult to explain. If marginal costs were constant or desired mark-ups counter-cyclical the firm could absorb demand shocks by increasing output. If marginal costs are increasing, so that the firm's demand curve for labour slopes downwards, price must rise or real wages fall, for the firm to supply more output. But real wages are observed to be pro-cyclical. It is a problem in microfoundations to reconcile Keynesian output variability in response to demand shocks, with optimising behaviour by firms. Establishing the cyclicality properties of the mark-up would contribute to this. The mark-up is a real or relative price. While Keynesian demand effects have long been explained through rigidities in nominal prices, it is now recognised that for such effects to persist there must be real rigidities [see Blanchard and Fischer 1989, ch 9]. The European school of general equilibrium macro-economics, popular in the 1970s, has been widely criticised for the arbitrary nominal rigidities on which its results depend.

In order to link the mark-up to medium-run growth fluctuations, this paper makes a useful distinction between the short- and medium-run mark-up. In the medium run, as all factors are variable, account must be taken not just of short-run marginal cost, but of the returns to scale. The other reason the mark-up is important is that it is also the profit share, and there is a close interaction between it and medium-run growth. Recent work on difference stationarity in time-series of major macro-economic quantities has opened up the possibility that fluctuations are not restricted to the short-run, and can also affect growth. If a time series is difference stationary it means that shocks have permanent effects on the level. There can be hysteresis or path dependence. Earlier growth was thought to depend on a trend determined by long-run supply factors, while fluctuations were purely temporary. In the real business cycle literature, all fluctuations and growth are long-run and driven by shocks to technology. In this paper, as in the New Keynesian literature the possibility of multiple equilibria and endogenous cycles allows the short-run to influence the long-run, or medium-run growth cycles can exist.

In the Indian economy cycles have been more medium-run in character and have taken the form of periods of higher and lower growth, as compared to short-run fluctuations in employment that have been analysed so intensively in the west. Indeed, for a labour surplus developing economy, growth is the major issue, not short-run fluctuations. A model driven by medium-run investment savings dynamics generates multiple equilibria and growth cycles [Goyal 1994] in capacity utilisation and the mark-up. It also gives restrictions on the medium-run mark-up of a representative firm. The restrictions provide a justification for using the mark-up as the firm's decision variable, and a theoretical rationale for a macro aggregative demand variable entering the price-cost or mark-up equation. They help in solving the two identification problems plaguing empirical estimations of industrial pricing: (i) identifying the firm's supply curve when both demand and supply are changing, and (ii) separating changes in marginal cost from those in the mark-up.

The basic problem is that data alone cannot distinguish between changes in the firm's true marginal cost and those in the mark-up. If costs of adjusting prices lead to nominal rigidities the mark-up would fluctuate more. In the medium to long run there is real rigidity, if the mark-up adjusts to a relatively constant desired value. Even so, rigidity of real and nominal prices is not the ultimate cause of fluctuations in growth. Real rigidities may be an optimal response to the nature of the dynamic adjustments to shocks. Indeed, as Keynes insisted, full wage-price flexibility may deepen a recession. Restrictions from the dynamic theory help to get around the identification problems that otherwise plague a single equation format.

Starting from theoretical first principles and using the general to specific error correction methodology (ECM), a mark-up change equation is specified and estimated at the two and three digit industry levels. It is used to (i) provide a test of the theoretical hypothesis of a mark-up that is counter-cyclical but shows little variation over the medium run, (ii) examine the effect of aggregate demand on industry supply, and (iii) see if the supply response differs across industrial sectors.

The structure of the paper is as follows: after reviewing the identification problems and linking neo-classical and mark-up pricing in the next section, the equation specification is developed and a brief comparison of ECM and cointegration methodology is made in Section III. Section IV presents the regression results and Section V concludes. Regression results are reported in the Appendix.

II
Theoretical Background

Cost-plus-pricing models typically have a pricing equation such as:

$$p = (1 + m)\,C \qquad (1)$$

Instead of equating price, P, to marginal cost, firms charge a mark-up, m, on costs, C. The debate is:

(1) About the definition of the cost variable in equation (1). It is widely agreed (based on empirical studies of the firm), that it is prime or variable cost, comprising largely of wages and raw materials. The normal cost school argues that firms do not change prices when cyclical variations in costs occur. Instead, costs which are under the control of the firm, such as labour costs, are averaged over the cycle.
(2) That there are costs to changing prices, so that some kind of lagged adjustment to equation (1) would have to be modelled.
(3) Factors affecting the level and cyclical properties of 'm' itself. The level of the mark-up is most often related to industry structure, starting from Kalecki's degree of monopoly, to modern formulations where the mark-up covers fixed costs in Chamberlinian imperfect competition. Earlier writings in this field expected the mark-up to be constant, but there were theories where it was procyclical, as firms sought to raise cash for investment. As we will see, recent theoretical and empirical evidence suggests that it is counter-cyclical.

It is a tall order to distinguish empirically among the effects of changes in 'C', 'm' and of short and long run adjustments. That is perhaps why the debate is not resolved in spite of the countless papers that have been written in this field. It is an econometric identification problem to obtain the firm's supply relation in the face of demand and cost (supply) shocks, and interdependencies between demand and supply.

A similar identification problem arises in the neo-classical theory of firm pricing. If it can be shown that the mark-up is the firm's decision variable, and that it is chosen optimally, mark-up pricing becomes compatible with profit maximisation, and is not ad hoc. This is important because most empirical studies use mark-up pricing, and it has been found to accurately capture the firm's actual decision-making process. First, we show the conditions under which the price equals marginal cost rule can yield an identical empirical representation to the cost plus models. We find that important conceptual issues that need to be distinguished include the time horizon, the returns to scale and the slope of the marginal cost curve. We differentiate between a short-run where prices are constant, a medium-run where prices and capital stock are adjusting, and a long-run steady-state equilibrium. As we are concerned with aggregative empirical studies, adding up or product exhaustion must be satisfied. That is, factor payments must add up to total product.

Even though at disaggregated levels there may be different degrees of competition, in aggregative empirical studies the firm is treated as a standard monopolist, facing a downward sloping demand curve. From the first order conditions of profit maximisation, the firm's optimal long-run price turns out to be a constant mark-up on long-run average cost [see Maccini 1981]:

$$p = (1 + m)\, W_1^{a}\, [(r + \delta)W_2]^{1-a} \qquad (2$$

Here a is the labour coefficient of a constant returns to scale production function, W_1 is the wage rate, W_2 is the price of capital goods, r is the interest rate, δ the depreciation rate, so that $(r+\delta)W_2$ is the rental rate. The price-cost margin (PCM), τ, is also the profit share:

$$\tau = PCM = \frac{Py - vy}{Py} = (r + \delta)\frac{K}{Py} \qquad (3)$$

where y is output, v is variable cost per unit, and K the nominal capital stock. Under competitive conditions, excess profits would be zero, and the third equality in equation (3) would hold, where r is the competitive rate of return. Even with monopolistic competition excess profits would be zero in equilibrium, if there was free entry. However, in this case labour would be paid less than its marginal product. The excess share of capital would compensate for the fixed costs that the firm chooses to carry. Other market structures would allow pure profits to exist, but the PCM would be constant only if marginal cost is constant and therefore equal to average cost. The PCM is related to m as in equation (4).

$$\tau = \frac{m}{(1 + m)} \qquad (4)$$

Pricing with a constant mark-up is consistent with long-run optimal pricing if there are constant returns to scale and short run, if marginal cost is constant. The next question becomes, how to measure marginal cost in different time dimensions? While constant returns to scale may be a realistic assumption for the long run, with all factors variable, what is the firm's true marginal cost in the short to medium run, and is it constant?

In the new empirical industrial organisation (NEIO), as against the older structure-conduct-performance paradigm, it is recognised that economic marginal cost cannot be easily observed. The attempt is to infer marginal cost and market power, by estimating the behavioural equation (5), using which the firm sets price and quantity.

$$P - D_1(.)\, Y = C_1(.) \qquad (5)$$

In the equation, the left hand side measures marginal revenue, and the right hand side marginal cost. Each is regressed on the appropriate price, quantity, shift and random variables, and competing hypotheses regarding market power tested.

An interesting example of this indirect approach, from a macro-economic perspective, is that of Hall (1986). He built upon the fact that measurements of total factor productivity, using the Solow growth accounting equation, always show pro-cyclical residuals. Possible explanations for this could be (i) that technology shocks are correlated with the business cycle (as in the real business cycle literature), or (ii) that firms have market power so that price exceeds marginal cost. The first has not been validated empirically, while market power is widespread in modern industry. In that case, assuming a fixed mark-up, an estimate of the price/marginal cost ratio, μ is obtained from equation (6). In the latter, the change in output is linked to that in labour input, n, or the hours of work. The revenue labour share ($W_1 n/Py$) is α, F_L is the marginal product of labour, θ is the constant and β the random part of productivity growth.

$$\Delta y = \mu\, \alpha\, \Delta n + \theta + \beta \qquad (6)$$

$$P = MC = \frac{W_1}{F_L} \qquad (7)$$

$$MC = W_1 \frac{\Delta n}{\Delta y - (\theta + \beta)\, y} \qquad (8)$$

$$P = \mu\, MC \qquad (9)$$

$$\text{or } \frac{P}{\mu} = W_1 \frac{\Delta n}{\Delta y - (\theta + \beta)\, y} \qquad (10)$$

Equation (6) is derived from the price equals marginal cost condition (7), by considering a discrete change in input and output (8), and allowing price to exceed marginal cost, (9) and (10). We have $\mu = (1 + m) = (- \tau)^{-1}$. If the firm has market power, labour is paid less than its marginal product, so that μ multiplies the contribution of labour input to change in output in equation (6). Labour input is itself pro-cyclical, so that as μ increases the pro-cyclicality of the residual falls.

Thus Solow's pro-cyclical residuals are explained without recourse to pro-cyclical technology shocks. In the presence of market power, measured factor payments underestimate factor product giving pro-cyclical residuals. Hall assumes a constant μ, and estimates it at the level such that the residual is uncorrelated with the business cycle. Where Solow assumed price equals marginal cost and obtained pro-cyclical residuals, Hall assumes that technical progress consists of random deviations from a constant trend, and obtains a positive mark-up. The method implies that marginal cost is measured by observed variation in labour per unit output (the latter corrected for exogenous, or non-

cyclical, productivity increase), multiplied by wage. Equation (6) referred to a short run, with constant capital. It is also valid for a medium run, in which the capital stock can vary. It is only necessary that quantities are then normalised by capital.

Hall obtains high levels of the mark-up, at the two digit industry level and regards this as proof of widespread market power. He shows that this is consistent with zero profit equilibrium for monopolistically competitive firms with fixed costs.[1]

Rotemberg and Woodford (1991) attempt to prove Rotemberg and Saloner's (1987) theory of counter-cyclical mark-ups, using a refined version of Hall's method. Instead of a constant mark-up, they take Hall's estimate as determining the latter's average value. They assume (i) a small elasticity of substitution between labour and capital, or a rising marginal cost, and (ii) random residuals. Solow's equation then generates counter-cyclical mark-ups for high levels of average mark-up. Their assumption of low elasticity of substitution, or rising marginal cost, is difficult to reconcile with excess capacity and a medium-run dimension where all factors can be varied.

We see here our old problem of distinguishing between changes in cost, mark-up, and demand. Hall (1991), and Rotemberg and Woodford make opposite identifying assumptions. The former takes the mark-up to be fixed or random and gets a falling marginal cost. The cyclicality of the data is such that they alone cannot distinguish between the assumptions. There is no theoretical basis either, for the assumptions made of constant mark-up in one case, and rising marginal cost in the other.

If marginal cost is not constant and equal to average cost, or the mark-up is not counter-cyclical, or technology shocks are not correlated with the business cycle, the observed pattern of weakly pro-cyclical real wage [see Blanchard and Fischer 1989, ch 1], cannot be reconciled with a profit maximising firm on its supply curve. As demand increases, the firm would produce more only if real wages fell (the mark-up increased) if marginal cost is rising.

We seek to obtain some restriction from theory to aid in this identification problem. If the firm had fixed costs or excess capacity,[2] marginal cost would fall as production increased. The supply function is then indeterminate since it always pays a competitive firm to expand production. A counter-cyclical mark-up reimposes constant returns and a determinate demand determined production level is obtained. Equation (11) is the first order condition of a profit maximising firm with fixed costs. It is the marginal productivity equation that Hall used. Equation (12) constructs a hypothetical constant marginal productivity, F_L^*, and constant marginal cost, MC^*. In that case the mark-up would be counter-cyclical. The firm's relative prices would fall in periods of high demand as the rise in its price would be less than the rise in nominal wages.

$$\frac{W_l}{P} = F_L (1 - \tau) \qquad (11)$$

$$P = \mu\, MC^* = \frac{W_l}{(1 - \tau)\, F_L^*} \qquad (12)$$

Most empirical studies of industrial pricing assume constant returns to scale. That seems to fit the data best. Indeed, aggregate data must satisfy product exhaustion. The latter is compatible with optimal pricing only if there is constant returns to scale. Our analysis reconciles IR and optimal pricing with generalised constant returns. In the presence of market power and fixed costs, labour is paid less than its marginal product, and constant returns maintained by a counter-cyclical mark-up.

Increasing returns lead to possible instability. Convexity and a constant marginal cost is restored with the behaviour of the mark-up. But why would a firm want to lower its mark-up when normalised demand is high? While the first order condition can give an indeterminate supply function, restrictions from stability generate a determinate supply representation for the risk averse firm, such that it maximises expected profits. The marginal equalities required for efficiency are not violated once dynamics are brought into the picture. Another way to understand this is that the static inefficiency is preventing an even greater dynamic inefficiency. Constant returns in the medium run are maintained by adjustments in τ. In that case, the neo-classical pricing decision of the firm can continue to be written as in equation (1), except that the mark-up would now be variable. It would be inversely related to output. The mark-up becomes the firm's decision variable. The argument is not restricted to a particular industry structure, but, in a non-Walrasian equilibrium, all firms have market power and the mark-up varies inversely with the elasticity of demand.

These considerations can explain the influence of aggregate demand variables on the mark-up and output decisions of the firm. Although each firm is small, and does not think that its decisions affect aggregate variables, yet the profit share, τ, affects savings-investment, and aggregate demand. In periods of high induced demand, the elasticity of demand would also be higher, making a fall in mark-up optimal. As excess capacity fell, excess profits required to cover its costs also fall. The instability that can accompany a very high accelerator is moderated by the behavior of mark-ups. That is, the low variation in mark-ups makes possible a large output response to a rise in demand. High investment allows the continual expansion of capacity, its utilisation, and high growth.

A medium-run macro-economic model that captures growth fluctuations can thus generate restrictions for the pricing decision of the representative firm. An intuitive explanation is attempted here, details are available in Goyal (1989, 1994). The model has multiple long-run non-Walrasian equilibria, with excess capacity. In the presence of the latter, macro quantity variables enter the decision-making process of the firm. Aggregate demand is determined by the IS/LM curve. The requirement of smooth adjustment and convergence to equilibrium can generate an as if supply relation linking the mark-up to excess capacity.

Fixed costs are naturally associated with monopolistic competition. However, along adjustment paths, or in non-Walrasian equilibria, the optimal capital stock decision of a competitive or non-competitive firm would involve excess capacity. We use the latter in the sense of an excess of fixed production factors, so that short- and medium-run marginal cost is declining. But the firm optimally chooses to hold it. The reason is that as against the static monopolistic competition case considered in much of the literature, the firm's maximisation problem here is dynamic. The firm maximises profits over dynamic adjustment paths approaching equilibria with excess capacity. The latter arises from the system dynamics. The explanation for both excess capacity and excess profits is more general. It is not dependent on, although it does not preclude imperfect competition. The level of τ is determined in the long-run equilibria, and its rate of change along the medium-run adjustment paths. In Hall (1991) the rate of change of τ is indeterminate, in Rotemberg and Woodford (1991) its level. While disaggregative τ would be affected by industry structure, aggregative variables would also influence it.

The mark-up 'm' is monotonically related to the profit share, τ. Equation (3) shows that τu is the rental rate, where $u=y/k$. The discounted present value of the former determines investment, as in the 'q' theory. Savings are also a function of τu. So that aggregate demand is a function of τu. Aggregate supply can also be shown to depend on these two variables, with τ as the decision variable of the firm

$$\tau' = g(\tau, u)$$

$$g_\tau < 0,\ g_u < 0,\ |g_\tau| \text{ large},\ g_{\tau\tau} < 0 \qquad (13)$$

A risk averse representative firm would maximise expected profits if τ was changed as in equation (13). A superscript dash denotes a time derivative, and a subscript

a partial derivative. The restrictions, on the partial derivatives, are obtained by examining the dynamic flow of the reduced form dynamic system in time rates of change of τ and u. The restrictions imply a counter-cyclical mark-up that shows only small variation. They allow smooth medium-run adjustment paths, that approach a long-run steady-state, to exist. The reason is largely that recessionary paths are avoided. Risk aversion imposes a preference for more average profits. Instability associated with an accelerator type response of investment to rising profits is prevented.

The testable implications of the theory, germane to our purpose in this paper are that the medium-run mark-up would be counter-cyclical but have small changes. Further, the dynamic specification of the rate of change of τ is directly derived from the firm's profit maximisation. Then, reflecting 'deep' parameters in the sense made precise by Lucas, the supply relation is less likely to suffer from dynamic mis-specification. In addition, identifying restrictions are obtained that allow the mark-up to be specified as the decision variable with an expected a priori negative sign of an activity variable. The latter should reflect macro-economic, rather than firm level factors. Goyal (1989) tested and confirmed the implications for the aggregate mark-up in a simulation model. The current paper tests the hypotheses at more disaggregated levels in an econometric study. Even disaggregated studies of industrial pricing rarely refer to a firm or single product. Product level substitution effects are aggregated out, and macro effects predominate.

As argued earlier, if there is constant returns or marginal cost is constant and equals average cost, neo-classical optimal pricing is equivalent to cost plus pricing. Domovitz et al (1988), repeat Hall's (1986) calculation, with adjustment for raw materials. They find that estimated mark-up is close to the PCM. Theoretically, the two would be the same if the marginal product of labour is equal to its average product, or if, as in our theory, the mark-up varies to make it so. Domovitz et al also regress the PCM on a number of contemporary variables, to find out the influence of industry structure and activity variables on it. They report that in more concentrated industries, it is more pro-cyclical. Counter-cyclical mark-ups need a broader theoretical base than that of monopolistic competition.

Before discussing the specific functional forms that were estimated for the Indian economy, it is useful to briefly review a few well known studies of industrial pricing for the latter.

All three estimate variants of a basic equation regressing industry price on unit cost, and seek to establish the cyclical properties of the mark-up. But the arguments outlined above imply the criticism that unit costs do not measure the true marginal costs. If the assumption of constant marginal = average cost is made, as in Balakrishnan (1992), there is no theoretical justification for an activity term in the price-cost equation. Madhur and Roy (1986), estimate an equation that intensifies the problem of distinguishing between changes in cost and mark-up, since the two terms appear together. While the latter find the mark-up to be pro-cyclical, the former, in an error correction framework, that perhaps picks up medium-run effects, obtains a counter-cyclical mark-up.

Chatterjee (1987) finds that pricing is cost-plus, or that the mark-up is fixed. In her price-cost equations the capacity utilisation term often has a negative sign, and is significant when costs are normalised, again perhaps picking up medium-run effects. She rationalises away the negative sign, by saying that as costs are likely to be counter-cyclical in India, using normalised costs would create an illusion of a counter-cyclical mark-up.[3] Our point is that it is not an illusion, but a deliberate choice. She also shows that the behaviour of aggregate mark-up can be an artefact of aggregation, so that disaggregated estimates are required.

These studies were all painstaking and usefully extended the research frontier, but they point to the need for a still more careful, theoretical and econometric specification of the estimated equations. Perhaps then more light could be shed on the thorny identification problems we have been examining.

III
Equation Specification

In order to test the hypotheses set out in the last part of Section II, regressions were run of the change in the PCM on its own lagged values, and on 'u'. Empirically, implementable equations are derived from the continuous time dynamic model in the following way. The dominant medium-run trajectory in τ u space is expected to be downward sloping [Goyal 1994], so that:

$$\tau_t^* = g - hu_t \tag{14}$$

The mark-up will approach its medium-run value gradually, as prices adjust with a lag. It becomes natural to use an error correction mechanism (ECM). In the latter, disequilibrium is corrected over a number of periods. Optimisation with adjustment costs can lead to such behaviour. The 'general-to-specific' (GTS) procedure of Hendry (1985) begins with a general autoregressive distributed lag model:

$$\tau_t = A(L)\tau_{t-1} + B(L)u_t + \varepsilon_t \tag{15}$$

Our version is:

$$\tau_{t+1} = \sum_{j=0}^{n} \tau_{t-j} + a - c\, u_t + \varepsilon_t \tag{16}$$

The general-to-specific procedure of making transformations, and dropping insignificant lags after empirical testing, gives the final equations chosen for estimation:

$$\Delta\, \tau_t^m = b\tau_{t-1}^m - cu_t + \varepsilon_{1t} \tag{17}$$

$$\Delta\, \tau_t = b\tau_{t-1}^2 - cu_t + c_{2t} \tag{18}$$

$$\Delta\, \tau_t = a + b\tau_{t-1}^2 - cu_t + \varepsilon_{3t} \tag{19}$$

where τ^m stands for a three-year moving average, and ε_t is a random error term. Equation (17) captures medium-run adjustments in 'τ'. The medium-run is therefore defined as a period of three years. The difference equation (17) will be stable[4] if $0 < b < 1$. Regression (18) allows (i) comparison with the literature, which sometimes examines the adjustment of price to cost in the short run, (ii) examination of the difference between the short- and medium-term adjustment of τ. In the presence of menu costs and other short-run price rigidities, equations (18) and (19) are not expected to be behavioural, but to show the short-run impact of shocks. The short-run refers to one year. Equation (19) allows econometric tests of the significance of an intercept term in the absence of strong theoretical restrictions on its presence or absence.

The coefficient b is a priori expected to be larger in equations (18) and (19). It could even be greater than one, but in that case we would expect it to be positive, since otherwise explosive fluctuations may occur, especially with the non-linear τ term. While the medium-term trajectory is approximately linear, the non-linear τ term gives a better fit in the short-run equations. Our analysis provides a theoretical rationale for the inclusion of a capacity utilisation variable, with an expected a priori negative value in the medium run. In the short run the expected sign would depend upon (i) the pattern of price adjustment, (ii) whether demand or supply shocks predominate. This is explained in Section IV. Domovitz et al regress the PCM on a number of cross-sectional industry specific variables, such as the degree of concentration, unionisation, etc, that are expected to affect the industry mark-up. Given the small number of degrees of freedom, we chose the simplest possible specification. The lagged τ terms can be expected to pick up industry specific effects on the change in mark-ups.

In deriving the estimated equations we have followed an ECM methodology, combined with strong restrictions from theory. The general ECM format which can be derived from equation (15) is as

follows.

$$\Delta \tau_t = \text{lags } \Delta\tau_{t-1} - z_{t-1} \qquad (20)$$
$$z_t = \tau_t - \tau^*_t$$

In this the long-run relationship $\tau = \tau^*$ is separated from the short-run adjustment. The alternative econometric method for separating long- from short-run influences, in time series is that of co-integration. This involves testing for the long-run relation between variables (that is, if they are co-integrated) [5] In step two this is imposed on the estimating equation so that it separately measures adjustment to short-run changes and equilibrium error. The problem with this method is that the test for estimating the unit root[6] or degree of co-integration is of very low power. It also cannot distinguish between a unit root and a near unit root or non-linear trend. Engle and Granger (1987) show that if two variables are co-integrated then an ECM representation (20) exists and vice versa. The advantage in this procedure is that the variables are all of the same order of integration.

In contrast, in an ECM model obtained using the GTS procedure, the regressors may not all be stationary, or may be of different orders of integration,[7] so that in small samples the ECM model derived from the GTS procedure may differ from that obtained from the Engle-Granger method. Where the variables are not all stationary, the asymptotic distribution of the OLS estimators does not approach a normal distribution, so that the t-tests are in doubt. In our case theory helps to resolve the question of whether the variables should be in first differences or levels, so that we may expect the test statistics to have the desired properties. The equations being derived directly from the maximising decisions of firms, the chances of dynamic mis-specifications are minimised.[8] Further, 'valid' ECM models with coefficients of ECM terms that are significant and correctly signed, are obtainable from the GTS procedure, even when tests support co-integration. GTS will not lead to error even in this case [Muscatelli and Hurn 1992:12]. In small samples the problem of bias in the first stage of the co-integration procedure may be more significant.

The recent literature is quite critical about the substantial contribution of co-integration techniques to macro-economics. Cochrane (1991) opines that its main use has been as a representation teaching us to be careful in modelling trends, levels and first differences. The decision on such modelling should ideally come from theory and not the statistical testing. The major decision is the number of lags. Once these are decided, the different equations can be obtained as transformations of each other. Muscatelli and Hurn conclude that co-integration does not offer any short cuts to estimating dynamic time series models. A general criticism from Summers (1992) is that empirical work based on complicated statistical techniques has made only methodological and no substantial contribution to our understanding of the economy. Often tests are reported for small samples when only the asymptotic distribution of the test statistic is known, as in Madhur and Roy's use of the J test.

As τ is a ratio it would be expected to show mean reversion (stationarity in levels) and can always be written as an ECM. However, given the possibility of multiple long-run equilibria between u and τ [Goyal 1994] that the former are not expected to be realised, and the non-linearity involved, there is a problem not only of distinguishing between the short- and long-run but also between multiple long-run equilibria. There are two means involved, although they may be quite close. Therefore, mean reversion or stability of long-run equilibria is not expected to be realised trivially, and needs to be demonstrated. Granger (1993) has made a recent attempt to address these problems and define a generalised unit root process as a dynamic attractor. At present co-integration tests are even more doubtful in the presence of non-linear and breaking trends. In addition, the sample available is small. We chose to use GTS and simple estimation techniques, and specify different equations for the short- and the medium-run behaviour of the mark-up. Identification is achieved using theoretical concepts.

Our theoretical hypothesis, allows us to reconcile constant marginal cost with increasing returns, and to use τ as the firm's decision variable. The other identification problem is that of (i) distinguishing between the demand and supply curve, and (ii) the simultaneous equation bias likely to arise in estimating a single equation. If the mark-up in turn determines u, the latter will be correlated with the error term. The coefficient 'c' is likely to be biased downwards, if an adverse shock causes both quantity to fall and price to rise. Regarding (i), from the theoretical hypothesis we expect the supply relation to be relatively constant in the medium run [see Goyal 1995a, b], while the demand curve would shift. In that case the former could be identified. The supply relation modelled here relates the firm's desired profit share to excess capacity, and is likely to be constant. Following Hall (1991), we can say that the relation between price and quantity identified by a demand shift that is orthogonal to supply shocks, would be the supply relation. In any case both the demand relation and the medium-run adjustment path are also expected to be downward sloping. It is possible that the supply relation is upward sloping. Whether our equations are estimating the demand, supply relations or adjustment path, failure to obtain a negative coefficient for the 'u' variable would be a rejection of our hypotheses. As the size of the sample is very small, we do not give much credence to the values of the estimated coefficients. The signs are enough to test our hypothesis.

With respect to (ii), we use the aggregate output/capital ratio in the estimating equations. This serves as an instrument which is independent of industry level supply shocks, but correlated with industry demand. Domovitz et al (1986b) explicitly test for the simultaneous equation bias. They compare OLS and 2SLS estimates in a mark-up equation and find that the single equation is quite robust. The bias is small. We also estimate the equations with an industry index of capacity utilisation in order to construct a test of the relative importance of industry versus aggregate demand variables on industry supply. If what is being estimated is the adjustment trajectory, and neither demand nor supply, there would be no simultaneous equation bias.

IV
The Regressions

Equations (17), (18) and (19) were estimated by OLS, for the period 1973-74 to 1985-86. It is a preliminary exploratory study, based initially on compactly available data in Chandhok et al (1990).[9] Six industrial sectors at the two digit level, representing consumer, intermediate and capital goods were chosen. Subsequently, regressions were also run at the three digit level of disaggregation for each of these sectors, with data from the *Annual Survey of Industries*. Results are reported in Tables 1A, 2A and 3 respectively, for the six industries at the two digit level. Table 1B reports equation (12) for selected industries at the three digit level, while 2B reports (13) and in a few cases (14). For reasons of space, only regressions with significant F tests are reported at the three digit level. In almost all the regressions (the rest are available with the author) the coefficients were of the expected signs. The data base and industry key is in the Appendix. Given the very small sample length the results are surprisingly informative, and allow some tentative conclusions to be drawn.

(1) The coefficient of u is negative and significant, in both the short and medium run. The latter confirms counter-cyclicality of the medium run mark-up. In the short-run regressions, in a very few cases, the coefficient of u is positive, but then it is insignificant.

The change in the mark-up in the short-run exceeds that in the medium run. This implies that there is indeed lagged adjustment

in prices, perhaps due partly to menu costs.[10] If prices are relatively inflexible in the short run, we would expect an adverse supply shock to lead to a fall in mark-ups and output: short-run mark-ups would be pro-cyclical. A fall in demand would imply pro-cyclical short-run mark-ups if marginal cost was falling (as mark-ups would fall with output; this is our case), and counter-cyclical if marginal cost was rising. The estimated coefficient of capacity utilisation in the short-run equations is also negative. What is the inference regarding the nature of the shocks.

In the estimation period, there were a number of supply shocks (oil price increases and fluctuations in agricultural output). On theoretical grounds, given excess capacity or fixed costs we expect marginal cost to be falling. If an adverse supply shock leads to an adverse demand shock, a counter-cyclical short-run mark-up can be reconciled with a falling marginal cost. There are a number of mechanisms that can cause such a possible interdependence between supply and demand. One such is the effect on the investment decisions of the firm, another is through changes in government budget and expenditure decisions.[11] There is some evidence that in the Indian economy industrial output responds with a lag to changes in agricultural output. As industrial prices also adjust with a lag, mark-up would fall in the event of a supply-shock, subsequently, output would fall and mark-up rise. This could explain the counter-cyclicality of the short-run mark-up and also reconcile the observed fluctuations in calculated mark-up series with their relatively constant trend. In the theoretical model being tested in the current paper [Goyal 1995b] we expect the supply relation to be relatively constant in the medium run, with supply shocks being almost fully converted into changes in demand.

(2) In line with the a priori argument the coefficient of τ is positive and significant. It is much larger in the short run and less than one in the medium run. This corroborates our stability hypothesis.

(3) The macro capacity utilisation variable is indexed T and the firm level demand variable C. Regressions with the former perform better than with the latter variable, at the two digit level, and in the medium run at the three digit level of industry disaggregation. The coefficient of u(indexed T) is also larger and more significant than that of u(indexed C). Although regressions using C may be suspect because of the simultaneous equation bias, the regressions do suggest that macro demand dominates local industry demand at two digit levels, and over the medium run at three digit industry levels also. Including both in the same regression, Domovitz et al (1986a) find that aggregate demand effects are four times larger, and that total demand effects explain more than 50 per cent of the change in the PCM.

(4) A simple equation was estimated, and no attempt was made to pick up other industry structure variables. These must be specially important at more disaggregated levels. Even though neglecting them is justifiable given our limited objectives, the low R^2 for paper and cotton textiles[12] at the two digit level, and for many industries at the three digit level, suggests that micro inter-industry price effects and other industry structure variables, including price control, may add to the explanatory power. Although some of the regressions for the consumer good industries are actually better at the three digit level, we can tentatively conclude that the structure of the industry, including the degree of competition, may have an important role in explaining the change in mark-up for

Appendix

TABLE 1A: TWO-DIGIT INDUSTRY MEDIUM-RUN MARK-UP REGRESSIONS

Industry		Coeff of τ^m_{t-1}(b)	Coeff of u_t(c)	R^2	DW	ρ	F	AIC
Basic	(C)	0.57483	–0.16243	0.4020	1 5274	0.17473	3.165	0.2799E–03
		(2.3329)	(–2.3944)					
	(T)	0.67204	–1.1211	0.7235	1 7374	0.11309	11.494	0.12943E–03
		(4.5504)	(–4.6580)					
Chem	(C)	0 27091	–0.9035E–01	0 4491	2 2695	–0.24008	6.204	0.49424E–04
		(2.5655)	(–2.7090)					
	(T)	0.25584	–0 50556	0 4865	1.9489	–0 01997	6.948	0.46065E–04
		(2.7448)	(–2.9081)					
Cott	(C)	0.29603	–0.67019E–01	0.3000	1.0246	0 46145	2.773	0.54257E–03
		(1.8471)	(–2.1168)					
	(T)	0.26681	–0.36219	0 2506	1 1628	0 39223	2.326	0.58085E–03
		(1.6478)	(–1.9126)					
Elem	(C)	0.34743	–0.11555	0.3207	1.0056	0 3582	2.415	0.10835E–03
		(1.9408)	(–1.9919)					
	(T)	0.54078	–1.056	0.6769	1.7104	0 12028	9.486	0.51542E–02
		(4.0721)	(–4.1423)					
Paper	(C)	0.65715	–0.18041	0.3047	1.4252	0.11632	1.808	0.60369E–02
		(1.8669)	(–1.8994)					
	(T)	0.59304	–0.95796	0.2259	1.5207	0.07177	1 217	0.67206E–02
		(1.5366)	(–1 5578)					
Trnspt	(C)	0.30553	–0.91099E–01	0.1840	0.6748	0 43503	0.913	0.20489E–03
		(1.3460)	(–1.336)					
	(T)	0.57904	–1.0212	0.3336	0.7042	0.39094	2.016	0 16733E–03
		(2.0033)	(–1.9953)					

Note: t-values in parentheses.

TABLE 1B: THREE-DIGIT INDUSTRY MEDIUM-RUN MARK-UP REGRESSIONS

Industry		Coeff of τ^m_{t-1}(b)	Coeff of u_t(c)	R^2	DW	ρ	F	ATC
Basic	(T) 330	0.74203	–1.3215	0.6270	1 3135	0.32656	7.008	0.38382E–03
		(3.6531)	(–3.7143)					
Basic	(T) 331	0.19469	–0.31812	0.4455	2.0361	–0.11869	8.609	0.26425E–04
		(2.5334)	(–2.7799)					
Cott	(T) 230	0.70367	–0.82861	0 8339	1 2018	0.07331	21 805	0.1785E-03
		(6.3118)	(–6.5598)					
Cott	(T) 232	0.38737	–0.51689	0 4432	1 267	–0.01138	3.462	0.11488E-03
		(2.5128)	(–2.574)					
Cott	(T) 235	0.71080	–1.2127	0.3794	1.9046	0.04129	2.579	0.37201E-03
		(2.2149)	(–2.2415)					
Elec	(T) 362	0.84216	–1.4551	0.4938	0.9294	0.53898	3.904	0.19416E-03
		(2.7929)	(–2.7942)					
Elec	(T) 364	0.42734	–0.90198	0 5817	2.1426	–0.07891	6.73	0.51935E-04
		(3.3127)	(–3.3825)					
Chem	(T) 310	0.27263	–0.62539	0.5487	1.8743	–0.02073	10.441	0.58946E-04
		(3.1138)	(–3.3422)					
Chem	(T) 311	0.43429	–0.81702	0.4436	2.059	–0.06589	4.403	0 96875E-04
		(2.5126)	(–2.5939)					
Trnspt	(C) 371	0.36015	–0.13174	0.4243	1.3612	0.31669	3.081	0.57917E-02
		(2.3136)	(–2.4805)					
Trnspt	(T) 374	0.88532	–1.6323	0.5706	0.981	0.25216	5.373	0.82494E-04
		(3.2651)	(–3.2544)					
Paper	(T) 285	0.63602	–1.236	0.4094	0.765	0.34184	3.388	0.7448E-04
		(2.3788)	(–2.348)					

Note: t-values in parentheses.

consumer goods industries. This is true also for the transport sector, which includes many consumer durable goods.

(5) Table 3A shows that the intercept term is not significant, and the regressions using it are poorer. So it is dropped and we concentrate on the results without the intercept term.

V
Conclusions

A dynamic aggregate demand-supply based model of a representative firm yields restrictions on the firm's pricing decisions. These provide a theoretical reconciliation of generalised constant returns with an activity variable affecting the firm's pricing decision. The regressions corroborate the theoretical hypotheses. Both short and medium run mark-up are counter-cyclical. The short-run response of the mark-up is greater than the medium run. This suggests that (i) the conditions for stability are satisfied, (ii) there is some short-run nominal price rigidity, and (iii) the mark-up shows only small changes over the medium run. The hypothesis is found to generalise to the level of disaggregated industry. There is some evidence of the importance of aggregate demand effects for industry supply decisions, providing a macro-foundation for industrial pricing.

The observed stability of the mark-up provides a micro-foundation for structuralist macro theories. In post-Keynesian theories firms raise the mark-up to generate more cash for investment. We find that in periods of high investment and growth the mark-up would be falling. Product wages and consumer welfare would therefore rise. This is particularly true if productivity is rising and costs falling at the same time. The reforms can contribute to the latter, but for them to be fully successful high investment must be maintained. Over the medium run, as the supply relation we have examined is stable, the mark-up will just cover the cost of excess capacity.

Mark-up pricing has formed an intrinsic part of many macro-models, because it captures real world pricing behaviour. It has, however been attacked as ad hoc because it lacks theoretical underpinnings. We derive restrictions on both the level and rate of change of the mark-up from the dynamic profit maximising decisions of risk averse firms. The mark-up is a major component of the inflationary process. Understanding variations in it will help to understand inflation. Secondly, the mark-up is also the profit share, and as such affects both the savings and investment decisions, and influences medium-run growth or macro-economic activity.

An implication for policy is the possible stagflationary consequences of a demand

Table 2A: Two-Digit Industry Short-Run Mark-Up Regressions

Industry		Coeff of τ^2_{t-1}	Coeff of $u_t(c)$	R^2	DW	ρ	F	AIC
Basic	(C)	1.0278	–0.81228E-01	0.3432	1.9132	–0.12759	2.619	0.13003E-02
		(2.2803)	(–2.2448)					
	(T)	1.2616	–0.56541	0.3889	1.7323	–0.06766	3.189	0.12099E-02
		(2.5208)	(–2.4825)					
Chem	(C)	0.18002	–0.20874E-01	0.0326	1.6942	–0.12265	0.346	0.4985E-02
		(0.69812)	(–0.78479)					
	(T)	0.67408	–0.41126	0.3536	2.0999	–0.25924	3.001	0.33312E-03
		(2.3328)	(–2.4264)					
Cott	(C)	1.1181	–0.51128E-01	0.1118	2.8533	–0.45262	0.711	0.37143E-02
		(1.1501)	(–1.1810)					
	(T)	1.2281	–0.32419	0.1459	2.2837	–0.16057	0.938	0.35719E-02
		(1.3128)	(–1.3598)					
Elec	(C)	–0.13485	0.15858E-01	0.0158	1.5477	–0.02468	0.100	0.80581E-03
		(–0.40691)	(0.43740)					
	(T)	1.1775	–0.73396	0.5356	1.8999	–0.15359	5.808	0.38020E-03
		(3.3892)	(–3.4058)					
Paper	(C)	3.2609	–0.31327	0.2127	2.4934	–0.37917	1.355	0.52966E-01
		(1.646)	(–1.562)					
	(T)	4.5526	–2.5539	0.338	2.0694	–0.0985	2.557	0.44537E-01
		(2.2599)	(–2.1896)					
Trnspt	(C)	–0.34871	0.35408E-01	0.1187	1.8655	–0.09925	0.684	0.68964E-03
		(–1.0018)	(1.1144)					
	(T)	1.0964	–0.55773	0.3023	1.3717	0.03974	2.18	0.54592E-03
		(2.0849)	(–2.0497)					

Note: t-values in parentheses.

Table 2B: Three-Digit Industry Short-Run Mark-Up Regressions

Industry		Coeff of τ^2_{t-1} (b)	Coeff of $u_t(c)$	R^2	DW	ρ	F	ATC
Basic	(T) 330	1.231	–0.63035	0.3917	1.6965	0.02210	3.224	0.25088E-02
		(2.5379)	(–2.4186)					
Basic	(C) 331	0.63793	–0.45459E-01	0.4335	1.9193	–0.21249	4.163	0.21296E-03
		(2.6446)	(–2.852)					
Basic	(C) 332	0.91796	–0.84813E-01	0.4838	2.1016	–0.05553	4.718	0.14743E-02
		(2.9606)	(–3.046)					
Basic	(C) 333	1.6348	–0.1209	0.4635	2.007	–0.00493	4.457	0.87335E-02
		(2.9521)	(–2.6744)					
Cott	(T) 230	3.3341	–0.75829	0.7566	1.3457	–0.0183	16.302	0.10775E-02
		(5.5449)	(–5.639)					
Cott	(T) 234	0.9243	–0.89313E-01	0.4919	2.3774	–0.22204	5.021	0.17576E-01
		(3.1684)	(–2.0621)					
Cott	(T) 235	2.1291	–1.0354	0.6548	2.2315	–0.19793	9.485	0.24618E-02
		(4.3554)	(–4.1298)					
Elec	(T) 360	5.3538	–4.1540	0.2909	2.3009	–0.20904	2.051	0.81495E-01
		(2.0253)	(–1.9811)					
Elec	(T) 362	1.51	–0.78132	0.5914	1.1606	0.39231	7.777	0.5728 E-03
		(3.7935)	(–3.9299)					
Elec	(T) 364	1.0005	–0.72135	0.4478	2.1063	–0.28974	4.074	0.45809E-03
		(2.8433)	(–2.8514)					
Chem	(C) 310	0.3539	–0.54765E-01	0.3396	1.7147	0.03156	3.379	0.39872E-03
		(2.1335)	(–2.4359)					
Chem	(T) 311	1.4277	–0.82238	0.5055	2.3427	–0.19586	5.238	0.78638E-03
		(3.1946)	(–3.2363)					
Chem	(T) 312	2.2063	–1.2949	0.3767	2.3095	–0.18499	3.028	0.19295E-01
		(2.459)	(–2.3004)					
Chem	(T) 313	–0.47075	1.9338	0.5373	2.022	–0.01946	5.807	0.98678
		(–3.4079)	(1.1522)					
Chem	(T) 314	2.0489	–0.74577	0.4789	1.9304	–0.06938	4.616	0.38628E-02
		(3.0313)	(–2.7477)					
Transpt	(T) 371	1.016	–0.93016	0.4432	1.8588	0.05005	4.336	0.18835E-01
		(2.8257)	(–2.7084)					
Transpt	(C) 373	1.8821	–0.11406	0.5384	1.4139	0.06	5.902	0.32669E-02
		(3.4352)	(–3.1041)					
Tranpt	(C) 374	1.3635	–0.76728	0.4703	1.3644	0.10516	4.445	0.35968E-03
		(2.9813)	(–2.956)					
Transpt	(T) 375	2.0316	1.0439	0.4686	1.6378	–0.0019	4.592	0.95119E-03
		(2.9769)	(–2.8731)					
Paper	(T) 280	0.44878	–0.33002	0.219	1.7749	–0.00723	1.757	0.17281E-02
		(1.6563)	(–1.8642)					
Paper	(T) 285	1.2084	–0.76573	0.3272	1.1265	0.13586	2.56	0.34445E-03
		(2.2202)	(–2.1757)					

Note: t-values in parentheses.

Table 3: Two-Digit Industry Short-Run Mark-up Regressions with an Intercept Term

Industry		Coeff of τ^2_{t-1}(b)	Coeff of u_t(c)	Const (a)	R^2	DW	ρ	F	AIC
Basic	(C)	1.7281	–0.5795E-01	–0.769E-01	0.5376	2.0423	–0.112	5.231	0.108E-03
		(3.217)	(–1.6961)	(–1.945)					
	(T)	1.3101	–0.20701	–0.6391E-01	0.3902	1.6966	–0.04234	2.88	0.1426E-02
		(2.0828)	(–0.81139E-01)	(–0.1411)					
Chem	(C)	1.0404	–0.2529E-01	–0.8179E-01	0.4738	1.9935	–0.14487	4.052	0.3203E-03
		(2.7978)	(–1.2195)	(–2.7471)					
	(T)	0.90119	0.85778	–0.23564	0.414	1.8814	–0.19464	3.179	0.3567E-03
		(2.4114)	(0.64533)	(–0.9634)					
Cott	(C)	1.4387	–0.1457E-01	–0.5002E-01	0.1736	2.4095	–0.21262	0.945	0.40829E-02
		(1.3534)	(–0.23265)	(–0.82)					
	(T)	2.2042	6.7889	–1.2354	0.3928	2.6597	–0.349	2.911	0.2997E-02
		(2.2596)	(1.8231)	(–1.9132)					
Elec	(C)	1.5791	–0.18817E-01	–0.1477	0.525	1.8287	–0.096	4.974	0.45938E-03
		(2.6199)	(–0.6534)	(–3.1065)					
	(T)	0.99687	–1.4939	0.14654	0.5475	2.0533	–0.21055	5.445	0.43766E-03
		(1.9228)	(–0.94585)	(0.48608)					
Paper	(C)	5.5142	–0.12688	–0.40504	0.4021	2.0078	–0.0563	3.027	0.47517E-01
		(2.4435)	(–0.59076)	(–1.6886)					
	(T)	6.9892	24.627	–4.8013	0.5603	2.5704	–0.3097	5.735	0.34944E-01
		(3.3707)	(1.9269)	(–2.133)					
Trnspt	(C)	0.59217	0.215E-01	–0.73012E-01	0.277	1.5381	–0.02177	1.724	0.6683E-03
		(0.79157)	(0.80533)	(–1.4038)					
	(T)	0.91831	–2.4676	0.33675	0.4293	1.9158	–0.13107	3.385	0.52754E-03
		(1.7766)	(–1.7955)	(1.4152)					

Note. t-values in parentheses.

Data

All variables pertaining to two digit industries from Chandhok et al (1990) and three digit industries from *ASI*, various volumes. Aggregate manufacturing output, y, and real capital stock, k, from Goyal (1989).

Calculations

u_t (indexed T) = y_t / k_t
u_t (indexed C) = $y_{it} / [\{y_{i(t-1)} + y_{it} + y_{i(t+1)}\}/3]$,
i indexes the two and three digit industrial sectors
τ_t = [Gross output – (wages + materials + fuel)]/Gross output
It is difficult to even define optimal capacity, let alone measure deviations from it. The two measures of capacity utilisation defined above are widely used in the empirical literature.

Symbol key for tables

33	Basic	=	manufacture of basic metals and alloys industries
330		=	iron and steel industries
331		=	foundries for casting and forging iron and steel
332		=	manufacture of ferro alloys
333		=	manufacture of copper
23	Cott	=	manufacture of cotton textiles
230		=	cotton ginning, cleaning and baling
232		=	printing, dyeing and bleaching of cotton textiles
234		=	production of khadi
235		=	weaving and finishing of cotton textiles in handlooms other than khadi
36	Elec	=	manufacture of electrical machinery, etc
360		=	manufacture of electrical industrial machinery, etc
362		=	manufacture of dry and wet batteries
364		=	manufacture of audio, telephone, telegraph, radar, etc, equipment and parts
31	Chem	=	manufacture of chemicals and chemical products (except products of petroleum and coal)
312		=	manufacture of paints, varnishes, etc
313		=	manufacture of drugs and medicines
314		=	manufacture of perfumes, cosmetics, etc
37	Trnspt	=	manufacture of transport equipment and parts
371		=	manufacture of locomotives and parts
374		=	manufacture of motor vehicles and parts
375		=	manufacture of motor cycles and scooters and parts
28	Paper	=	manufacture of paper and paper products
280		=	manufacture of pulp, paper and paper board (including newsprint)
285		=	printing and publishing of periodicals, books, journals, atlases, maps and sheet music directories, etc

squeeze, especially a cut in investment. In the absence of a supply shock, inflation is likely to be lower and growth higher when demand for industrial goods is high.

Notes

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1 The assumption of monopolistic competition has proved very useful in a number of recent stylised macro-economic models. The characteristics of this are fixed costs, free entry and market power due to product differentiation In equilibrium there are zero profits, with the market power just covering the fixed costs. The firm chooses its price and labour and capital demand, taking aggregate demand as given. In the short run, the fixed costs allow an expansion of output in response to a demand increase, in the medium run entry causes a capacity expansion, without leading to the various business stealing effects possible under oligopoly

2 Fixed costs refer to an indivisibility in any production cost, it could be advertising cost. Excess capacity refers to excess capital stock, and, in the absence of an indivisibility, is difficult to reconcile with static optimisation by the firm.

3 Normalised cost would fall less than actual cost as output rose, so that the difference between output and normalised cost would fall Given India's quasi-closed economy, the predominance of agriculture, and considerable excess employment or labour hoarding, she expects a rise in agricultural output and a fall in its price to decrease raw material costs and money wages, as industrial output and labour productivity rise

4 The solution to a difference equation of the form (12) would be $\tau_t = \tau_0 b^t + K$, where K is a constant As $\tau_0 > 0$, if $b > 1$ the solution increases monotonically, $b < 1$ decreases, $0 > b > -1$ there are damped fluctuations, and if $-1 > b$, explosive fluctuations.

5 If there is a vector time series x_t, all the variables of which are integrated of order d, the series in x_t are co-integrated, if they can be written as $y_t = \beta' x_t$, and y_t is integrated of order (d-b), $b' > 0$ Here β' is the co-integrating vector, and y_t gives the equilibrium error from the long-run relationship between the component series in x_t If first differences of the components and y_t are stationary the ECM representation can then be written with the change in each component series a function of lagged changes in the components, and the equilibrium error

6 A difference stationary process is said to have a unit root. A simple example is a random walk without drift $z_t - z_{t-1} = n_t$, where n_t is white noise, that is, a random variable, so that the mean, variances and auto-covariances of z_t are stationary and independent of time.

7 A stationary time series would have constant unconditional mean and variance. The order of integration of a variable denotes the number of times it has to be differenced to achieve stationarity.

8 Desai (1984) in an interesting analysis of Phillips' original paper points out how much before the availability of ECM and cointegration methods, Phillips avoided dynamic mis-specification by (i) an averaging procedure that separated short- from long-run relationships, (ii) derivation of his equation from a micro-foundation of price setting firms competing for labour. Later versions of the Phillips curve neglected these features leaving them open to theoretical and empirical criticisms. However, the criticisms themselves also often suffered from neglect of (i) and (ii).

9 In 1973-74 a change was made by the Central Statistical Organisation in the classification of industrial sectors Therefore a commensurate time series at the two and three digit level is not available for the period before 1973-74.

10 Both nominal and real price rigidity is required to explain the cyclical behaviour of prices, wages and output. Theoretical explanations of the former range from Okun's idea of not spoiling customer markets, to current 'menu cost' theories, where the envelope theorem is used to show that it is optimal for a firm to keep prices fixed in the face of demand shocks, given small costs of adjustment. There are also efforts to study the dynamics of price setting, including endogenisation of the lag in price adjustment

11 Bose (1993) has a model in which the procurement price of foodgrains is set in the beginning of the period In the event of an adverse supply shock, the farmer decreases sales to the government, so that the market supply curve is unchanged The effect on the government's budget may then cause a shift in the demand curve.

12 Chatterjee (1989) also finds different price setting behaviour in textiles and paper, which she explains by supply side industry characteristics. Prime cost is acyclical in both, as compared to counter-cyclical for other industries While for paper this is true for both components of prime costs, for textiles labour costs are pro-cyclical but they form only a small part of prime cost. The wage component of labour cost in textiles is higher, there is less labour hoarding, and higher elasticity of employment with respect to output as compared to other industries. Both have a higher share of piece rates in employment so that money wages are pro-cyclical.

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Privatisation and Public Sector Enterprises in India

Analysis of Impact of a Non-Policy

Geeta Gouri

The lack of a comprehensive policy on privatisation stands out in contrast to other aspects of the New Economic Policy. Perhaps this is politically expedient, but in terms of economic management and more so public sector management, the lack of a policy can result in unexpected outcomes which may not be all that expedient. This paper attempts to provide glimpses of the possible outcomes of the non-policy on privatisation, focusing on the fiscal, efficiency and intersectoral dimensions.

PRIVATISATION in India is still low key. Privatisation as 'sale or ownership transfer of public sector enterprises' is virtually non-existent except for stray cases of sale of small enterprises. Privatisation through disinvestment is limited to selling a portion of the shares of 31 select public sector enterprises (PSEs). Privatisation as a process that aims at reducing involvement of the state or the public sector in the nation's economic activities[1] by shifting the divide between public sector and private sector in favour of the latter has made considerable progress since the introduction of the new economic policy (NEP) in 1991. The process of redivide has been mainly through delicensing, relaxing entry restrictions and through equity funding of PSEs. Despite an obvious move towards a redivide there is as yet no comprehensive policy on privatisation. Disinvestment is part of fiscal policy while the redivide between public-private is a combination of fiscal policy, industrial and tariff policy combined with strands of policy on public enterprise reforms.[2] The sum total is non-policy on privatisation. Lack of a comprehensive policy on privatisation stands out in contrast to other policy declarations of the NEP.[3] Perhaps such an approach is politically expedient. In terms of economic management and more so of public sector management lack of policy can result in unexpected outcomes which may not be all that expedient. This paper attempts to provide glimpses of possible outcomes under a truncated policy of privatisation. Three dimensions of a non-policy of privatisation have been selected for an analysis of the impact. They are: (i) fiscal dimension; (ii) efficiency dimension; (iii) intersectoral dimension.

The first dimension of privatisation namely, the fiscal dimension stems from the government's need to reduce the fiscal deficit. Disinvestment of shares in PSEs is directly attributable to the fiscal concerns of the government. Fiscal obsession as we shall see later seems to be an overriding concern in most policies towards PSEs. The issue is whether fiscal obsession is a good basis for a policy on privatisation. Privatisation for efficiency is the second dimension. In a sense the efficiency dimension forms the crux of privatisation policy. The redivide in favour of the private sector is based on the view that resources will be used more productively as efficiency of PSE is at discount. The private sector subject to the discipline of the market is efficient.[4] The issue is whether the same market discipline introduced by level-playing policies of economic liberalisation without ownership transfer will be effective for enhancing the efficiency of PSEs.

The third dimension of our impact analysis is on intersectoral linkages which have to be addressed by a policy on privatisation. Lack of policy reflects a unidirectional approach towards multidimensional effects. We shall highlight one major intersectoral linkage namely, the linkage between financial sector reforms and public sector reforms. This nexus is exemplified in two areas. Firstly, disinvestment of public enterprises and the entry of private enterprises has implications for the operational plans of financial institutions (FIs). In a sense, public investment has to be supplemented by FI investment. Secondly, in an open economy the monitoring role of FIs as major shareholders comes to prominence. As yet FIs have not displayed the required alertness. As financial sector reforms form part of economic liberalisation policies privatisation policy smoothens the nexus between financial sector reforms and public sector reforms.

I
Domain of Public Sector Enterprises and Privatisation

The public sector consists of a complex hierarchical structure. Our analysis is however, confined to privatisation of PSEs. Hence, at the outset it is helpful to define the domain of PSEs. Public sector refers to all government activities including administration, running utilities, financial system of the government and commercial activities of the government. The PSE consists of departmental enterprises and non-departmental enterprises at the central and state level. Departmental enterprises form part of the government financial systems but have separate accounts of income and expenditure.Their surplus or deficit is however, merged in the accounts of the departments of government e g, the telecommunications, the postal departments. In the case of railways a separate budget is presented. Highway construction and maintenance, irrigation, providing housing, health and educational services also fall into departmental enterprises. Several state governments operate the government printing press and the distillery for manufacture of local liquor as departmental enterprise. Non-departmental enterprises refers to activities that are carried out by entities which are legally separated from the government and are made to maintain a separate account of all their financial transactions and to set them out in the form of a profit and loss account. These enterprises were set up either under the companies act or under special statutory provisions. We designate the two groups of PSEs into: (a) public sector enterprises non-departmental (PSEND) and (b) public sector enterprises departmental (PSED). Sometimes PSENDs are further classified into financial and non-financial public sector enterprises. Unless specified PSENDs do not include financial institutions and insurance companies but some financial services such Indian Railway Finance Corporation are included.[5] While public sector activities other than enterprises are financed from the government budget, most PSENDs are not always entirely dependent on budgetary support from the government.[6]

Public sector in India is very large as can be seen from Table 1. The share of public sector in total capital stock was 46.2 per cent while value added was only 26.8 per cent.[7] This difference between capital stock and value added is largely due to investments in administrative departments where the goods are more in the nature of merit goods or social goods. And partly due to inefficiencies in the public sector. The share of PSED in capital stock was 13.6 per cent while value added was 4.0 per cent. In the

case of PSEND the stock of capital was 20 per cent while value added was 13.2 per cent. Investments in the public sector formed 9.4 per cent of GDP while savings were only 1.6 per cent leaving a savings-investment gap of -8 per cent. In Table 1 the savings and investment pattern as between public and private sector is given. Savings of both the public sector and of the private corporate sector are low. While savings in the private corporate sector have marginally increased over the six-year period they have declined to an insignificant amount (0.2 per cent) in the case of the public sector. Of significance is the dissaving of the government sector.

The PSENDs cover 246 central public enterprises (including six under construction) and about 800 state-level public enterprises. Investment in the central public enterprises in 1993-94 was Rs 1,59,307.40 crore. The major investments made in the public sector enterprises initially were in the capital-intensive basic and heavy industries whereas private enterprises catered predominantly to consumer goods. This clear demarcation of areas for public and private sector gets diffused by the 1970s onwards and recent investments in PSEs have been more in consumer durables.[8] Hence, while public sector enterprises account for two-thirds of productive industrial capital their share in net value added is only one-third. The low value added is matched by low rates of return on capital employed. In 1993-94 the public sector as a whole only earned a rate of return on capital employed of 2 per cent while public sector enterprises (departmental and non-departmental) as a group displayed marginal improvement with a rate of return of 2.78 per cent.[9] The net result has been a growing dependence on the exchequer for funds.

The process of breaking the public sector in India is interesting. It has not followed the traditional route of sale or divestiture. Instead, the move is more towards increasing the market share of private sector in different sectors. Conceptually privatisation can be divided into three broad modalities – Ownership Transfer, Management Transfer, Marketisation. Table 2 presents the three modalities with more detailed operational dimensions. Ownership transfer can be divided into partial and total. The table tries to bring out the numerous options that are available under ownership transfer. Each option involves weighing between the extent of government control and management autonomy. For example, for highly sensitive areas governments may prefer to retain controlling interest. Control can range between 26 per cent equity ownership as under the companies act to 100 per cent equity control and ownership. In fact, most private enterprises themselves have less than 50 per cent private participation. More often the so-called private owners hold less than 20 per cent equity leading to the search for a genuine private enterprise.[10] Equally important is the form of dilution. There are various options open such as: (i) to the general public; (ii) sale to one group; (iii) to workers; etc. Management transfer may or may not involve ownership transfer and therefore, we categorise them into total transfer and partial transfer. Here also, as indicated in Table 2 a number of options are available. Marketisation, the third modality is a catch-all word which includes level-playing field for PSEs; relaxation of entry barriers to private sector in what were once the public sector domain; providing greater autonomy to PSEs by distancing from the government. In the tables given below we have divided marketisation into four categories. They are: (i) distancing of PSEs; (ii) management autonomy for PSEs; (iii) financial autonomy for PSEs; (iv) effect of economic liberalisation policies and (v) corporatisation.

The adopted modalities of privatisation in India is given in Table 3. It is clear from the table that the most commonly used route of privatisation is the modality of marketisation. This is followed by management transfer. Ownership transfer is limited to the disinvestment exercises for non-inflationary revenues for the fisc.

The modality of privatisation for PSENDs is on restructuring or marketisation.[11] Emphasis is on opening the flood gates of competition and also creating level playing field between public sector and private sector enterprises. This is clearly discernible from Table 3. Ownership transfer and management transfer have been more subdued. Firstly, under the Industrial Policy Statement of 1991, areas reserved for the public sector have declined sharply from 17 to 8 to 6. Even in these six private sector participation is allowed on a case to case basis.[12] Secondly, the general liberalisation policies of macro-economic variables are all equally applicable to PSENDs in attempting to create a level-playing field for public-private sectors. Thirdly, efforts are being made to distance the PSE from the government and providing for managerial autonomy. All PSENDs are covered by the MoU. PSENDs boards have been revamped with one-third outside directors and government nominee directors restricted to one-sixth or a maximum of 2. Fourthly, a gradual withdrawal of budgetary support is forcing PSEs to tap external sources especially the capital market. Finally, a policy of disinvestment of public enterprises initially up to 20 per cent in select PSEs has been actively pursued. Thus what we may observe is that a gradual process of redefining the public-private divide combined with an even more gradual process of ownership transfer sums up the privatisation of PSENDs.

Corporatisation and encouraging private sector participation has been the main thrust of reforms in the PSEDs most of which are in the infrastructural sector. These include telecommunications, roads and highways, airports, road and air transport. In telecommunications, two metropolitan zones, viz, of New Delhi and Bombay have been converted into separate corporations. Private sector participation both in basic

TABLE 1: PUBLIC SECTOR IN THE INDIAN ECONOMY

Public Sector	Share in Net Capital Stock: March 1992 (Per Cent)	Share in Gross Value Added: 1990-93 (Average Per Cent)	Saving (Per Cent of GDP)	Investment (Per Cent of GDP)
Administrative departments	12.6	9.3	–2.2	1.9
Departmental enterprises	13.6	4.0	0.7	2.0
Non-departmental enterprises	20.0	13.2	3.1	6.2
Public sector	46.2	26.8	1.6	9.4
Private sector	53.8	73.2		14.21
Total	100.0	100.0	21.8	23.8

Sources: Economic Survey-1994-95, Government of India.
K B L Mathur, *Management of Indian Economy*, OECF, Japan, May 1995.

TABLE 2: MODALITIES OF PRIVATISATION

Ownership Transfer		Management Transfer		Marketisation:
Total Divestment	Partial Divestment	Total Transfer	Partial Transfer	Distancing from the Government MOU
Private sector	General public	Subcontract	Control on the basis of share holding	Freedom pricing investment hiring
General public	Workers	Leasing	Joint ventures	Financial autonomy
Reprivatisation	Joint ventures	Franchising	Changed structure of the board	Liberalisation and deregulation of entry
	Rolling privatisation	Mandating		Corporatisation

services and value added services have been solicited. The power sector earlier consisting of generating and transmission corporations of the central government and of electricity boards (generation, transmission and distribution) at the state level is now open to private sector participation in both generation and transmission.[13] In the case of railways a policy of partial subcontracting of services and franchising a few routes is on the anvil. New schemes of build-operate-lease-transfer (BOLT) for gauge conversion, track doubling, electrification, telecom project have been introduced. Similarly an own-your-own wagon schemes have been introduced. Postal services have allowed private parties participating in the courier services. In air transport private air taxis are allowed to operate in a few lines. Private airports are also under consideration. Roads are now open to the private sector. In the case of ports leasing of jetty facilities has been introduced. Private sector participation in infrastructure is a major policy in India. The huge financial dimensions of investing in infrastructure and the urgency of enhancing infrastructural facilities have been compelling factors towards encouraging private sector participation. The scope for competition and the dilution of natural monopoly elements have definitely helped in this policy of encouraging private sector participation and later privatisation.

It is clear that privatisation in India is slow. Major shifts have not taken place and as yet there is no move towards a comprehensive policy of privatisation.[14] The process of ownership transfer is gradual either through equity dilution or through mobilisation of equity finances from the market. Policies that encourage private sector participation while simultaneously discouraging fresh public sector investment is the main thrust of privatisation. Nevertheless, the total balance between public and private sectors is however changing. The strategy for privatisation is 'greenfield privatisation'.[15] Greenfield privatisation is the acronym for policies that encourage private sector participation.

II
Privatisation and Fiscal Dimension

The prime objective of disinvestment is mainly mobilising resources for the budget Disinvestment of PSEND was first introduced in 1991-92 with the decision to disinvest up to 20 per cent of government holdings in select 31 enterprises. Initially only FIs and mutual funds were allowed to participate. Later the group was extended to include the public and foreign institutional investors (FIIs) and the limit was left flexible. A look at numbers and magnitudes does not present a positive picture. In Table 4 we have

TABLE 3: MODALITIES OF PRIVATISATION IN INDIA

First Modality of Privatisation-Ownership Transfer

Total Divestment	Partial Divestment
Total sale of public sector enterprises mainly in the state government enterprises, e g, Hyderabad Allwyn, Mangalore Chemical and Fertilisers. Some of the sick units are now being considered for sale. An unsuccessful case of privatisation is that of Indian Iron and Steel Company.	Joint dilution of equity initially up to 20 per cent to financial institutions as a basis for meeting the fiscal deficit.
	Public sector enterprises are now permitted to enter the market and enhance their equity capital, e g, Indian Petrochemicals Corporation, Industrial Development Bank of India, Industrial Finance Corporation, State Bank of India
	Joint ownership, e g, Maruti Suzuki, Gujarat Ambuja. The pattern is to have 26 per cent foreign equity collaboration and over time become joint ventures.

Second Modality of Privatisation-Management Transfer

Sub-contracting	Leasing and Franchising	Professional Management
Sub-contracting of services such as catering and security in all public sector enterprises.	Equipment leasing is being considered by some of the public sector enterprises but this is more of a fiscal device	Changed participation of board of director both as a deliberate policy and as an outcome of equity dilution
Sub-contracting of labour-intensive manufacturing processes.	Leasing and franchising are the modalities being adopted in telecommunications and railways. The BOLT modus is being introduced with regard to wagons.	

Third Modality of Privatisation – Marketisation

Distancing	Management Autonomy	Financial Autonomy	Economic Liberalisation Policy Fall Out
Distancing through MOUs. All central PSEs and FIs have signed MOUs.	Administrative flexibility with regard to pricing as administered pricing is gradually phased out.	Tapping the capital market for fresh financial sources both debt and equity In cases where equity instruments are used this leads to equity dilution	Economic liberalisation, deregulation and shifting the public-private divide.
No more subsidies and grants from the central budget.	Voluntary Retirement Scheme offered to some 70,000 workers.	FI's tapping the market for new sources of fund – both debt and equity.	Private sector participation mainly in power generation; air transport; road transport. Private sector participation in both value-added and basic services; Private sector participation in the construction of roads, bridges, highways and ports, Entry of private banks including foreign banks.
No access to directed credit at lower interest rates.	Restructuring with diversification and new investment strategies although the process and final approval still requires the approval of the concerned ministry. Restructuring of FI's to meet international capital adequacy and income provisioning norms.	Corporatisation of two divisions of the telecom department into separate metropolitan corporations Corporatisation of ONGC, IDBI, IFCI either through a new statutory company or a unit under the general companies act.	All legal tax and tariff structures applicable to both public and private sector.

tabulated the proceeds of the disinvestment so far undertaken to the normal parameters of the budget. The table reveals the following:

1 The total amount of earnings since the start of the disinvestment works out to Rs 9,512.78 crore as per the budget papers.[16] In the first year of disinvestment accruals were Rs 3,038 crore in 1991-92, Rs 1,961 crore in 1992-93; Rs 1,865.78 crore in 1993-94; Rs 2,291 crore in 1994-95 and Rs 357 crore in 1995-96 plus Rs 168 crore (not included in the budget papers). Obviously, the amounts from disinvestment are very small and even within the smallness there is a declining trend.

2 The most striking feature is the small amounts earned from disinvestment both in relation to total receipts and capital receipts of the central government budget. In 1991-92, the first year of disinvestment, receipts from disinvestment amounted to Rs 3,038 crore which works out to 2.9 per cent of total receipts and 7.8 per cent of capital receipts. This was the peak year. There is a steady decline thereafter In 1992-93 out of the budgeted estimates of Rs 3,500 crore disinvestment was able to garner Rs 1,912 crore In that year it works out to 1.77 per cent of the total receipts and 5.42 per cent of capital receipts In 1993-94 the government planned for disinvestment earnings of Rs 2,500 crore (revised downwards from Rs 3,500 crore) but the amount actually earned from disinvestment was Rs 1,865.78 crore which is 1.42 per cent of total receipts and 3.36 per cent of capital receipts. In 1994-95 proceeds from disinvestment amounted to Rs 2,291 crore which is 1.43 per cent of total receipts and 3.33 per cent of capital receipts. In 1995-96 the government had budgeted for Rs 7,000 crore but disinvestment has yielded Rs 357 crore which is 0.20 per cent of total receipts and 0.54 per cent of capital receipts. The current budget hopes to mobilise Rs 5,000 crore from PSE disinvestment.

3 The negligible amounts from disinvestment are of limited consequence for closing the fiscal deficit. The peak of disinvestment in 1991 in relation to fiscal deficit is less than 10 per cent (8.36 per cent). This ratio declines to 4.88 per cent the following round, to 3.09 per cent in the 1993-94 disinvestment finally tapering off to 0.60 per cent in the current financial year. Suggestions that accruals from disinvestment be deployed for retiring the public debt is of marginal significance. Looking at disinvestment, accruals would help to retire 3.35 per cent of outstanding public debt in 1991 coming down to 1.45 per cent in 1994-95 and further to 0.16 per cent in the current budget. The consolidated public sector deficit continues to hover around 10 per cent of GDP.[17]

4 A better fiscal picture does not emerge even when we look at disinvestment proceeds to financial assistance from budgetary sources and internal accruals. In 1991-92 disinvestment revenue to internal accruals, budgetary support and extra budgetary support to PSENDs is 16.7 per cent but declines to 7.79 per cent in 1992-93 to 4.58 per cent in 1993-94 with a slight upturn to 5.67 per cent in 1994-95 declining steeply to 0.78 per cent in 1995-96. This suggests that the government is not inclined to using disinvestment proceeds to form part of the rolling public investment concept. Simultaneously, the declining trend in budgetary support reflects the withdrawal of government funds to PSENDs. In search of resources PSENDs will tap the equity route more frequently resulting in gradual dilution of equity. At present the amount of resources from outside sources is budgeted at Rs 9,670.75 crore.

5 A nagging doubt that remains is the choice of fiscal deficit as the basis for setting the limit to earnings from disinvestment. Perhaps, a more preferable alternative criteria for privatisation for fiscal resources is to conceive of public investment as a rolling concept such that if future investment rates need to be maintained sale of PSEs should provide the corpus of funds. In this case an interesting exercise is to get some dimension of the magnitudes of disinvestment required. Rather than taking fiscal deficit as the GDP it may be preferable to use investment in PSENDs in the denominator. As mentioned in the last section, the policy of greenfield privatisation or encouraging private sector into infrastructure prompts this enquiry. Presuming that infrastructure and core sector investments will continue to dominate whether in the public or private sector we can derive alternative estimates of the required disinvestment. Assuming that a minimum of Rs 90,000 crore will be required on annual basis then the amount disinvested should earn some proportion of the required investment. Investment in PSENDs is Rs 1,59,307 crore (1994) with equity component of the central government of Rs 55,682.66 crore (face value). Assuming an average sales realisation of Rs 50 per share we need to disinvest at least about Rs 1,800 crore shares in order to meet future investment targets which is more than half the existing equity base!

6 Yet another way of looking at disinvestment accruals is to compare it with the lost earnings of government from interest and dividend foregone on its contribution to share capital and on loans. The owner having invested large amounts is entitled to receive the required dues on disinvestment. The government in the past has borrowed to finance its expenditure both developmental and non-developmental. Out of these borrowings 13 per cent has gone towards financing PSEs but interest receipts to the central government to the loan component varies between 1-3 per cent. Dividends paid by PSEs to the central government on its share capital has been a poor 1.5 per cent. In Table 5 we did a simple exercise for three years estimating the foregone interest and dividend. Disinvestment is

TABLE 4 BUDGET AND DISINVESTMENT

(Rs crore)

	1991-92	1992-93	1993-94	1994-95	1995-96
Total Receipts	104559 (actuals)	110306 (actuals)	130893 (actuals)	159778 (actuals)	175404(RE)
Disinvestment of PSEs	3038 (actuals)	3500(BE) 1961 (actuals)	3500(BE) 2500(RE) 1865 78 (actuals)	4000(BE) 5767(RE) 2291 (actuals)	7000(BE) 357 (actuals) + 168 (not included)
Disinvestment as per cent of total receipts	2.9	1.77	1.42	1.43	0.20
Disinvestment as per cent of capital receipts	7.88	5.42	3.36	3.33	0.54
Fiscal deficit	36325	40173	60257	57704	64010(RE)
Disinvestment as per cent of fiscal deficit	8.36	4.88	3.09	3.97	0.60
Disinvestment as a per cent of outstanding public debt	3.35	1.89	1 1	1.45	0.16
Internal accruals and budgetary support	18898.34	24526.89	28673.61	40382.00(RE)	45764(RE)
Extra budgetary support for PSENDs					
Disinvestment as a per cent of IA and B	16.07	7.79	4.58	5.67	0.78

Source: *Budget Papers*, Government of India.

able to cover 24.53 per cent of this loss in the first year (1991-92). In the subsequent years the coverage by disinvestment falls to 12.10 per cent (1992-93) and 10.68 per cent (1993-94).

In terms of fiscal impact disinvestment has been marginal. In the case of disinvestment the amounts earned depend to a large extent upon the market realisation of the shares. A well known argument is that the shares have been sold at a low prices and much more could have been earned by way of disinvestment. This is a debatable subject as much depends on the method of evaluation and prevailing market conditions.[18] Our concern is more with the selected 31 PSENDs for disinvestment. These are PSENDs in the core sector.[19] Among them the more profitable both in terms of current profitability and future potential profitability have attracted greater share dilution. This is expected. Although the PSEs were bunched together to prevent undue buying of a few PSEs, investors invariably prefer good companies that add weightage to the package. Nevertheless, policy of disinvestment for fiscal gains results in many contradictions. Firstly, milching profitable enterprises for short-term gains can in the long run leave the government with unviable PSEs accentuating in the process the fiscal deficit by increasing the burden on government revenues. Secondly, the selected PSENDs were originally conceived as legally-created monopolies in the core sector. Economic liberalisation policies of tariff liberalisation and removal of entry barriers have opened the floodgates of competition. For these enterprises to face the competition a more comprehensive policy of privatisation which covers the dynamics of ownership and management transfer has to be worked out. Disinvestment to meet fiscal needs may not be exactly the most effective way. Instead disinvestment may create problems for management which can hurt their operational efficiency. Finally, equity dilution in core and strategic PSEND maybe in contradiction to the present policy of retaining public ownership in these enterprises.[20]

The persistence of a fiscal veneer for privatisation is interesting. Despite the small amounts earned from disinvestment and the poor performance at the bourses in terms of share price realisation the government has not attempted to evolve a comprehensive policy on privatisation. A few guesses can be attempted at this fiscal orientation. As a catalyst fiscal crisis can usher in paradigmatic changes. Structural adjustment reforms is one of them. The resistance to change presumably is less during crisis situations. But the limited amount disinvested only suggests that the fiscal crisis is perhaps not sufficiently severe for a policy of privatisation. The government prefers to maintain only a fiscal veneer! Further, the choice of 31 profitable enterprises for disinvestment although attractive for disinvestment and for earning resources for the fisc may in the long run be contradictory by leaving the government with sick enterprises. Fiscal adjustments between the short and the long run show a mismatch defeating the fiscal objective. A rational policy of privatisation would view disinvestment from a different perspective. For example, the focus may shift instead to: (i) identify those enterprises that need to be retained in the public sector; (ii) assess the new areas for public investment; (iii) assess the extent of shares that need to be divested based on criteria such natural monopoly characteristics, strategic, etc; and (iv) sell off the loss-making enterprises.[21] Again, the fiscal cover for privatisation as an easier option is again difficult to accept. Criticisms on 'selling the silverware' or underselling PSE shares do not point towards a soft option. Given these doubts the fiscal veneer of privatisation combined with other measures in policy reforms of public-private redivide only suggests that in India, the preferred route for privatisation is that of *fait accompli* rather than of a deliberate policy. In which case, the outcomes can be both costly and unpredictable.

III
Privatisation and Efficiency Dimension

A major thrust of economic reforms under liberalisation is on enhancing efficiency in industry. Privatisation associated with ownership diversification should normally be among the package of reforms suggested to improve productive and allocative efficiency. Productive efficiency under privatisation is based on the evidence that private firms attempt to minimise cost. The relative clarity of objectives and the incentive structure between principal and agent of a private firm is the basis for productive efficiency. Allocative efficiency, on the other hand, is dependent on competition making privatisation complimentary to liberalisation. Hence, efficiency requires a blend of competition and ownership transfer.

Despite the fact that there is no policy of ownership transfer for efficiency the blend between public-private sector have undergone changes due to (i) private sector entry; (ii) gradual disinvestment; and (iii) corporatisation and mobilising of equity funds from the market. At the same time the strong emphasis on restructuring PSEs towards greater management autonomy under a hard budget constraint draws attention to the ownership versus competition debate mentioned earlier. Under the reforms programme a level playing field is being attempted to be created between public and private enterprises. The main components of the liberalisation process are: first, introducing competition through delicensing, lowering of tariffs, foreign direct investment. At present tariffs (import duties) have been lowered to an average of 65 per cent. Under the General Agreement on Trade and Tariffs (GATT) these tariffs as agreed will be reduced to an average of 30 per cent by 1997 and later to 20 per cent as recommended by the Taxation Committee Reform (Chelliah Committee Report).[22] The lowest reduction has been on capital goods which imports direct competition to PSEs. Further the advantage of countervailing excise duties will also be phased out. Second, by moving towards a level-playing field for all industries including public sector enterprises in terms

TABLE 5: DISINVESTMENT ACCRUALS TO FOREGONE INTEREST AND DIVIDENDS

	1991-92	1992-93	1993-94
Interest receipts (Rs crs)	3170.07	1043.20	1114.78
(as a per cent of loans in that year)	(3.53)	(1.09)	(1.02)
Dividend paid	687	792	1014
(as a per cent of equity capital)	(1.50)	(1.52)	(1.82)
Adjusted for 13 per cent interest on loans (Rs crore)	11667.23	12433.63	14124.35
Adjusted for 10 per cent dividend on equity capital	4569.68	5194.37	5568.26
Combined foregone earnings	12379.86	15792.8	17463.05
Disinvestment as per cent of earnings foregone	(24.53)	(12.10)	(10.68)

Note: Figures in brackets indicate percentages

Source: *Public Enterprise Survey*, Department of Public Enterprise.

TABLE 6: MACRO COMPARISONS BETWEEN PUBLIC AND PRIVATE SECTORS

	Public Sector			Private Sector		
	1991-92	1992-93	1993-94	1991-92	1992-93	1993-94
PAT/Sales	2.16	1.95	2.37	4.36	3.99	3.72
Return on NW	4.26	4.20	5.20	17.00	16.17	12.87
Inc in Output/Invest	0.76	1.19	0.53	1.33	0.93	1.10
Growth in Fixed CF*	63.10	-32.80	5.20	66.00	-8.80	30.10

Note: * over the previous year.

Source: *The Indian Corporate Sector*, Centre for Monitoring Indian Economy, Bombay, 1995.

of: (a) phasing out of subsidies – removal of differential interest rates; (b) removal of tax concessions on public sector public bonds; (c) phasing out of administered prices as also phasing out of purchase policy preferences, and (d) levy of corporate tax and income tax on a regular basis.[23] Third, foreign private investment is allowed automatically for equity of up to 51 per cent. This has implications for PSEs both in term of competition in the respective fields and also for supply of capital and intermediate goods.

In this section an attempt is made to measure productive efficiency in terms of the performance of PSENDs in the manufacturing sector. Our data covers central PSEs based on the official survey of the department of public enterprise (DPE). The DPE classifies PSEs in the manufacturing sector into 13 cognate groups which includes power and mining. The grouping does not strictly match the normal concept of manufacturing sector and requires reclassification when comparisons are made with the private sector. Restricting the analysis to the manufacturing sector was based on the following reasons. Firstly, most central PSEs were set up in the Second and Third Five-Year Plans within the framework of a legally created monopoly market of a restrictive trade or closed economy model. Thirty years later, these enterprises presumably have grown up and learnt to face competition. It is therefore, revealing to initially observe the reactions of these enterprises to competition and market forces. Secondly, these PSEs have limited or no equity dimensions. Value decisions of fulfilling social objectives are minimum and prevents the analysis from becoming diffused. Lastly, the analysis pertains only to profit making PSEs. Loss-making PSEs are candidates for the BIFR and their future strategy is predetermined. We have selected all enterprises which showed positive rate of return in the last three years of 1991-92, 1992-93 and 1993-94. More current data is not available for all PSEs. This leaves out enterprises which have fluctuating returns in these three years. Profitability is defined in the financial sense of net profit to capital employed and net profit to net worth.

A comparative analysis of public-private sector performance is also undertaken. Underlying this comparison are queries such as: (i) Are PSENDs capable of functioning in an open (market-oriented) economy with the constraints of public ownership? (ii) Are there ways where public ownership gets limited and does not extend itself to sovereign considerations of social justice and equity? (iii) Is the threat of marketisation and competition effective in enhancing competition? But comparisons are misleading. PSEs and private enterprises are non-comparable categories in terms of homogeneity of investment, product line and size. The public sector have been restricted to a few sectors where private sector entry permit was restricted if not debarred. Further the size of investments are very large. Comparable categories in the private sector are few. In order to overcome this problem comparable categories within the private sector have been selected. The data is based on the centre for monitoring Indian economy (CMIE) data. The CMIE data base has certain advantages. It covers both public and private sectors on a regular basis. The data is standardised. Yet, difficulties remain and at times the exercise in making comparisons seems valiant.[24]

Indicators of Efficiency: Public and Private Enterprises

All indications as per the latest *Economic Survey* are that the economy is now poised on a buoyant phase. The present uptrend in industrial production while still reflective of past investment lags is now on a more positive trend. Comparisons between the public and private sectors shows that in terms of PAT sales both public and private sectors have performed more or less at the same level. But if we take profit after tax to net worth, the private sector has performed better. An interesting trend in the corporate sector is the increase in profitability from 'other income' which signifies that earnings are not from the mainstream investment. Changes in the depreciation rules have to some extent played a role in improving profitability.

Growth in fixed capital formation shows considerable fluctuations. After a dip in 1992-93 growth in fixed capital formation picks up. The fluctuating response is normal to expect in a period of transition when all reforms have either not been completed or have yet to be activated. There are two facts that need to be noted. The uptrend in capital formation is much higher in the private sector reflecting the effect of greenfield privatisation. Further, the decline in capital formation was sharpest in the capital goods industry and the basic metals industry both of which has a sizeable public sector presence. The sharper decline in public sector companies as compared to the private sector is reflective of decreasing growth rates in these two sectors. The sharp increases in capital formation in the private sector unfortunately is concentrated in capital work in progress. Capital work in progress expanded more than three-fold in 1990-91 and more than doubled in 1991-92. At the same time, investment in plant and machinery expanded only 22 per cent in 1990-91, by 36 per cent in 1991-92 and by 55 per cent in 1992-93 and declined by 3 per cent in 1993-94.[25] The decline in productivity of capital has been steep in 1990-91. The marginal productivity of investments saw sharp declines to 0.93 in 1992-93 but is on the rise now. On the other hand, marginal productivity of public sector companies which showed some improvement in 1992-93 (1.19) declined sharply to 0.53 in 1993-94.

Aggregates tend to be deceptive. Instead analysis of the manufacturing sector (public-private) separately therein of inter-industry analysis has more significance. Performance profile of PSENDs in the manufacturing sector is given in Table 7.

The table highlights the following facts:

1 Ratio of gross profit to capital employed for all public sector enterprises was 11.57 per cent in 1993-94. In the manufacturing PSENDs the ratio was 11.63 per cent.
2 Ratio of net profit to capital employed for all PSENDs comes down very steeply

Table 7: Profitability of Public Sector Enterprises

	1990-91	1991-92	1992-93	1993-94
1 a No of operating enterprises	236	237	239	240
b No of operating enterprises in the manufacturing sector (per cent)*	147 (62)	147 (62)	163 (68)	164 (68)
2 a Capital employed in all PSEs (Rs cr)	102084	117991	140109.76	159307.4
b Capital employed in manufacturing PSEs (Rs cr)	79422.81	92061.27	92244.65	121598.4
3 a Ratio of gross profit to capital employed by PSEs (per cent)	10.86	11.59	11.39	11.57
b Ratio of gross profit to capital employed by mfg PSEs (per cent)		11.63	11.50	11.63
4 a Interest in PSEs (Rs cr)	7601	9673	10778	11893.66
b Interest in mfg PSEs (Rs cr)		6195	7188	7635.28
5 a Ratio of net profit to capital employed (per cent)	2.33	2 00	2.43	1.81
b In all mfg PSEs (per cent)		–9.7	–25.91	–178.46
c In profit making PSEs (per cent)		9.79	8.83	8.27
6 a No of profit making enterprises	123	133	131	132
b No of profit making mfg PSEs		65	65	61
7 a No of loss making enterprises	111	102	104	103
b No of loss making mfg PSEs		82	82	103

Note: * Percentages in parenthesis are to the total PSEs. Further, the figures have been recalculated from the individual balance-sheets given out by DPE as their aggregates do not tally.
Source: Various issues of *Survey of Public Enterprises*, Department of Public Enterprises, New Delhi.

to 1.81 per cent in 1993-94. If we take the ratio for the manufacturing sector alone it registers a massive decline of -178.46 per cent. Assuming that this is due to accumulated losses of (103) enterprises such as National Textile Corporation (NTC) and Heavy Engineering Corporation (HEC), we calculated the ratio for profit-making enterprises (61 in number). The net profit to capital employed in 1993-94 was 8.27 per cent. Very clearly some sectors and some units in each sector are bearing the brunt of loss making units. Only in the case of textiles are all the units in the red. An oft quoted variant of the inter-sectoral differences is the profitability of the oil sector. A separate sectorwise analysis is done later.

3 A possible reason for the drop in the net profit to capital employed ratio as compared to gross profit maybe due to increasing interest costs as PSENDs no longer enjoy the advantage of lower interest rates. According to CMIE; the average interest costs[26] at 9.42 per cent are lower in the public sector than in the private sector at 13.38 per cent. This is not strictly correct as in the CMIE study the difference between interest rate arises due to interest stipulated while the interest actually paid by the enterprises is not adjusted for.

4 The same study of CMIE [27] estimated that other income i e, revenue from activities unrelated to the main line activity of the company, plays a remarkably important role in the profit before tax of the public sector. The issue of other income has raised an interesting enquiry into the efficiency of PSENDs. Reddy and Joshi have estimated other income deducted from earnings to equity and find from a study of 45 enterprises that the highest return earned in 1992-93 was 0.74 per cent whereas the lowest was in 1991-92 at -1.16 per cent.[28] To further examine the other income aspect we examined the ratio of other income to operating income as one way of assessing the efficiency of PSENDs in their specific line of operation. We looked at the aspect of other income to see if profits of these enterprises are derived from side-line activities. Unlike Reddy and Joshi we took other income to operating income for two years (1992-93; 1993-94). If this ratio exceeds 10 per cent than obviously the enterprise was not efficient in its main line activity. From the data the following enterprises earning large proportion of other income are: Sponge Iron (19 per cent; 24 per cent); Kudremukh (4 per cent; 10 per cent); NMDC (9 per cent; 16 per cent); Uranium Corporation (8 per cent; 10 per cent); Nuclear Power Corporation (1 per cent; 36 per cent); Bharat Dynamics (23 per cent; 12 per cent); Semi-Conductor (19 per cent; 18 per cent); Goa Shipyard (21 per cent; 70 per cent), Garden Reach (13, 17 per cent); Hindusthan Latex (30 per cent; 101 per cent); NTC (209 per cent; 1200 per cent).

Eleven out of 65 profit-making public sector in 1992-93 earned other income, some of it disproportionately large. A few border line cases should also be noticed. These include Bharat Heavy Electricals (BHEL), Neyveli Lignite, Oil and Natural Gas Corporation (ONGC), Oil India, Bharat Electronics (BEL), Rajasthan Electronics. The aspect of other income requires further investigation and no categorical assertions can be made now. It is possible in a few cases such as Bharat Dynamics, NTC and Semi-Conductor other income have prevented low or negative rates of return.

Sectoral Performance Analysis

As mentioned earlier inter-sectoral differences present a different picture of the performance of PSENDs in the manufacturing sector. We first present the financial performance of all 13 sectors. In order to present a concise manufacturing sector we later exclude the petroleum sector, and within metals and manufacturing, we have excluded mining which includes coal. Power has also been removed. A separate exercise is undertaken by removing the petroleum sector.

To examine the financial performance of PSENDs we have made use of four criteria. They are (i) average of net profit to capital employed of profit-making units for three years 1991-92, 1992-93, 1993-94; (ii) Average of net profit to capital employed of all units during the same period; (iii) Net profit to capital employed for the profit-making units in 1993-94; and (iv) Average of net profit to net worth of profit-making units. The following observations can be made on the performance of profit-making public sector enterprises:

1 Five sectors out of 13 cognate groups showed profits in the two digit ratio whether measured by net profit to capital employed or net profit to net worth. They are minerals and metal, petroleum, pharmaceuticals and chemicals, consumer goods and agro-based industries. However, in accepting their performance it is important to keep in mind: (a) all these groups fall into the category of administered prices which makes it difficult to assess their performance; (b) they are still in the monopoly segment reserved largely for the public sector. Given these two caveats their performance in relation to alternative opportunity is not laudable i e, the opportunity returns on investment (average of 10 per cent) barely matches the prevailing bank deposit rates let alone cover banks lending rates.

2 The next category of performers are steel and medium engineering units whose

Table 9 Reclassified Performance of PSEND in the Manufacturing Sector

	Average of Three Years NP/CE in	
	Profitable Units	All Units
Total	9.22	..
Excluding petroleum sector	8.09	0.84
Taking only manufacturing sector*	7.29	2.47

Note: * i e, leaving out coal, power, minerals (except aluminium) including petroleum

Source: Ibid.

Table 8: Performance of PSEND Sectorwise – 1993-94

	No of Units	No of Profitable Units	Average of 3 Years of NP/CE of Profitable Units	Average of 3 Years of all Units	NP/CE 1993-94	NP/Net Worth 1993-94
Steel	9	4	8 59	–0.64	5.68	13.5
Minerals and metal	13	7	12.45	3.24	7.62	6.6[illegible]
(aluminium)	2	2	1 98			
Coal and lignite	9	6	5 10	4 26	11.61	3,73
Power	4	4	3.47	1.16	7.85	6.[illegible]
Petroleum	12	12	13.61	13.07	19.06	15.9[illegible]
Fertilisers	8	2	4 8	–19.49	19.15	1.7[illegible]
Pharmaceuticals and chemicals	21	6	12.59	–0.49	9.58	2.4[illegible]
Heavy engineering	15	4	5.75	–18.07	8.86	2.2[illegible]
Medium engineering	24	10	8.62	–1.2	14.19	12.1[illegible]
Transportation equipment	12	5	6.13	–5.7	15.23	5.9[illegible]
Consumer goods	19	2	10.89	–1046.16	–535.11	9.[illegible]
Agro-based industries	4	1	18.75	–3.74	6.87	10.2[illegible]
Textiles	14	–	–	–	–44.00	
Total	164	61	8.52	–82.59	1.81	6.9[illegible]

Source: *Public Enterprise Survey*, Department of Public Enterprise, Government of India.

average of net profit to capital employed is around 8 per cent closer to the group average of 9 per cent.

3 The losses of sick enterprises heavily pulls down the group average in steel, fertilisers, heavy engineering, medium engineering, transportation equipment, consumer goods and agro-based industries often bringing down the sector-average into the negative category. Within each cognate grouping only a few are profit-making. Textiles fall into a separate category where all the mills are sick. Restructuring of these mills have however eluded any solution despite repeated efforts by BIFR and AAFR. In the minerals and metals sector mining has pulled up the group average. Strictly speaking they should be eliminated from the manufacturing category except for aluminium units.

4 Looking at the average net profit ratio of three years to that in 1993-94 of the profitable units shows that there has been a decline in profits of steel, minerals and metals, pharmaceutical and chemicals, transportation equipment, agro-based and consumer goods. On the other hand there has definitely been an improvement often marked in the case of coal and lignite, power, petroleum, fertilisers, heavy engineering, medium engineering. In the case of steel the losses of a few units such as Indian Iron and Steel (IISCO) draws done the average. Similarly the remarkable turnaround in the fertiliser sector is entirely due to National Fertiliser and FACT. It is therefore difficult to predict a trend upwards or downwards in any of the sectors.

5 An interesting observation from Table 8 is that the petroleum sector is really not the bulwark of PSEs profitability in the manufacturing category. The manufacturing sector has been further concised. We have in Table 9 retabulated sector analysis by excluding out the petroleum sector. It can be observed that NP/CE for the profitable units, the average of all the 13 groupings comes down by only 1 percentage point. On the other hand the impact of the petroleum sector is much more weighty when we take all the 164 manufacturing units. We also recategorised the manufacturing sector including petroleum and excluding mining to assess the financial performance. The percentage point comes down by 2 points. It is therefore mining units that pull up this sector and among them mention should be made of Kudremukh Iron Ore.[29] The burden of profitability in the manufacturing is therefore shared by all PSEs in the manufacturing sector and not merely of the petroleum sector.

How has the public sector performed in relation to the private sector? This is a difficult question to answer. The main problem as mentioned is in trying to compare non-comparable categories. Hence, in making public-private sector comparisons a cautious approach is necessary. Using the CIMM data we have reclassified the manufacturing sector into eight categories to match the classification of public sector enterprises as given by the department of public enterprise, ministry of industry. Petroleum, coal, mining and power sectors have been left out. Heavy and medium engineering have been combined. The comparisons are between the industry average and the profitable public enterprises in that industry. The ratios estimated are profit after tax to networth and profit after tax to capital employed. Details are given in Table 10.

Table 10 clearly reflects the difficulty of comparing unlike with unlike. In terms of industry average even on an unweighted basis and selecting a sample from a sample study shows that industry picks up after 1993-94 and it is really in 1994-95 that the turnaround occurs. Surprisingly, the profitable PSENDs have done better than the industry average confirming our earlier analysis that a few enterprises pull up the average. Yet, another observable feature is the lag in performance between the industry average and that of the PSENDs. The lag maybe due to the delay in reporting the results.

Taking the financial ratios into account we can tentatively on the basis of three-year

Table 10 Comparative Performance of PSEs in the Manufacturing Sector (Net Profit/Net Worth; Net Profit/Capital Employed)

Sector	Industry Average					Average of Profitable PSENDs				
	1990-91	1991-92	1992-93	1993-94	1994-95	1990-91	1991-92	1992-93	1993-94	1994-95
Steel	2.5	6.5	3.6	5 76	13.18	6.52	500.3	30.77	12.37	15.8
	0 84	1.84	1.53	2 23	5.36	4.50	12.41	9 96	5.51	5.86
						4 units				2 units
Metals	4 40	6.69	5 51	7.64	14.55	3 28	11.30	9.40	6.92	10.81
	0.60	2.48	1.74	1.46	7.95	2.86	8.88	7.45	7.42	5.91
						7 units				3 units
Chemicals and	12.04	14.45	15.86	16.46	17.41	13.31	12.15	13 32	8.19	8.00
pharmaceuticals	4.47	5.12	6.21	7.85	9.68	25.81	18.41	3.48	5.67	6.76
						3 units				1 unit
Fertilisers	5.55	10.01	9.94	10.38	19.63	5.10	8.86	6 82	17.65	15.07
	2.37	4 56	6.07	5 74	11.78	7.11	6.85	5.93	16.57	13.27
						2 units				1 unit
Engineering	15 92	12.75	13.11	11.51	16.44	7.05	19 68	12.90	8.51	3.63
	6.76	5.14	5.81	7.93	10.58	17 74	9.47	7 13	4.57	1.94
						10 units				3 units
Transport equipment	18 39	9.16	–0.44	12.37	20.52	2.97	19.03	16.73	16.06	1.86
	9 22	3.96	–0.18	6.09	12.77	6.05	6.48	7.02	8.06	1.02
						4 units				1 unit
Agro-products	15 09	17 68	12.42	9.40	16.36	13.78	12.13	19.26	20.26	NA
	9 08	10 06	6 31	5.60	11.56	12.30	11.71	18.69	20.26	
						1 unit				
Consumer goods	15 44	12.11	12.47	4.24	16.22	16.54	11.68	9.88	10.45	NA
	5.35	3.97	4.93	1.99	9.66	14.15	9.72	9.64	8.38	
						2 units				
Textiles	11 53	7.72	4.74	11.59	12.11	..	..	..	..	..
	10.63	2 93	0 54	5.93	6.43	..	..	..	..	..
Sectoral average	11.20	10.78	8.57	9.92	19.35	8.80	74.45	14.87	12.55	9.19
	5.48	4.45	3.66	4.98	9.53	11.31	10.49	8.66	9.55	5.79

Source: Ibid.

period data surmise that in a competitive environment with a level-playing field, the existing public sector enterprises require major restructuring including privatisation and ownership transfer. Taking all the evidence together the response of PSENDs to the reforms programme is still tentative. Despite the limited number of years since the structural adjustment reforms were introduced more attention needs to be paid to the following aspects. Firstly, the performance of the so-called profitable manufacturing PSENDs ranges from moderate to poor. Even the so-called 'profitable' petroleum sector returns are modest despite the fact this is a price-created monopoly market. Secondly, within each cognate group there are only a few enterprises earning positive returns. Thirdly, in the strict technical sense, all units are in the competitive market segment and can no longer enjoy the luxury of officially created monopoly markets. If this trend persists they will have to take a more aggressive strategy.

Competition has played a contributory role for many PSENDs egging them to restructure their enterprises within the given constraints of public accountability. Of interest is the strategic intentions of these enterprises in response to changing market conditions. All the star public sector enterprises like Steel Authority of India (SAIL), Bharat Heavy Electricals (BHEL), Hindusthan Machine Tools (HMT), Bharat Electronics (BEL), Hindusthan Aeronauticals (HAL), Bharat Earth Movers (BEML) have drawn plans to adjust to an open economy (Table 11). Most public sector enterprises have drawn up future strategies for diversification with efforts at globalisation especially through joint ventures with international companies. SAIL has also shown interest in diversification into a new field. Obviously, these are the initial responses to the reforms programme. In many cases intentions need yet to be put into operation. Perhaps more than anything else the government needs to draw up a policy of intervention and support besides a rational policy of privatisation. What is observable is the threat of competition in its embryonic stage needs to be sustained with greater management flexibility.

The issue is whether these PSENDs who have responded through initial plans of restructuring and diversification can sustain their operations on a profitable manner in an open competitive economy without the support of government intervention? Of course, in large industries where economies of scale prevail, the imperfections of international competition invariably necessitate government intervention whether in the form of tariff protection or in terms of soft intervention such as economic diplomacy.[30] Of more direct concern is whether these enterprises can function as commercial entities without the encumbrance of social objectives and accountability that government ownership enforces? The question is whether competition is enough or is it necessary to allow for privatisation with greater managerial autonomy? Furthermore, should the process of privatisation be an outright sale or gradual dilution of 'testing the water policy'? Even here is it possible to consider different levels of privatisation or government control?

Comparing the profitable PSENDs with their equivalent private sector may perhaps be more revealing. In Table 12 we have taken the profitable PSENDs and their equivalent private sector enterprise and tabulated the financial performance for the last five years.

Performance of comparable private sector enterprises as can be noted from Table 12 has been uniformly better except in the case of steel. In this sector in the initial stage the private enterprise TISCO did better than the PSE SAIL. Later, from 1993 the trend is reversed. This maybe due to the changed product mix due to deregulation of prices. Equally interesting is the way BHEL has picked to perform closely with its comparable Indian category Kirloskar Electric. In this category both Widia India and Asea Brown Boveri have done better than the other two. Their performance has also been evenly good. In the metals and petrochemicals sectors the private sector have performed better. There have, however, been years when performance of both public and private enterprises are comparable. This may have been due to exogenous factors such as change in administered pricing to deregulation, reduction in tariffs or impact of general industrial growth rate.[31] A financial analysis however needs to be supplemented by an analysis that will explain the existence of slack or X-inefficiencies prevalent in the two groups.

If privatisation must have an impact on efficiency the first requirement is a policy on privatisation that encompasses the following aspects. Firstly, the process of gradual dilution of equity combined with increasing access to the capital market for resources by the PSE will but see an erosion of government control. The issue is how much government stake should be retained in these enterprises? The answer depends on the strategic importance of the enterprise. For example, many of the enterprises that are in capital goods sector and heavy industries, government presence may be warranted. It maybe equally necessary for government support in case of international competition as a purely nationalistic guarantee to ensure positive returns on heavy investments.

Secondly, the need for continued government support also arises from the fact that many of the public sector enterprises may in the short run be less equipped to face international competition. A suggestion often put forward that industries where economies of scale operate and there are increasing returns to scale such as the petrochemicals industry, resort to tariff protection (non-distortionary) maybe more realistic than

TABLE 11: STRATEGIC RESPONSE OF SOME PUBLIC SECTOR ENTERPRISES

Enterprise	Current Business	Future Strategies
Bharat Electronics	Electronic-Defence	Image intensifiers – joint venture with Delft Instruments, R and D projects – joint ventures with Ericcson Radio Systems; semiconductors – joint venture with Elcot, SGS Thomsons
Hindusthan Machine Tools	Machine tools, CNC lathes, tractor, watches	Electronics, telecommunication systems and software; overseas manufacturing unit at Dubai; turnkey overseas projects like railways and mechnotronics.
Hindusthan Aeronautics	Defence, aeronautics	Sub-contract supply of air-frame and other parts to aerospace industries, manufacture of civil jets and space research
Indian Telephone Industries	Telecommunications	Joint ventures with Equatorial Statcom, for manufacture of earth stations, overseas joint ventures for telephone exchange at Singapore; new products such as satellite rural network with ISRO; research projects with IISC; new telecom products with C-DoT
Bharat Earth Movers	Earthmovers	New products of world-class for export market, setting up of overseas joint ventures for exports.
Steel Authority of India	Steel	Possible diversification to shipping insurance.

Sources: (a) M Shiva Kumar, 'Delicensing the Public Sector Units', *The Chartered Accountant*, March 1994; (b) various issues of *The Economic Times* and *Annual Reports*.

purely free trade situation. The possible reversion to infant industry protection may be self-defeating. Instead, a programmed sequencing of privatisation where the PSEs are first privatised in terms of ownership transfer and then allowed to face international competition through tariff reduction could be a preferred option. This is a route implemented in Malaysia and South Korea. In cases of heavy public investments the extent of government ownership pattern assumes significance. What is required is equity participation by the government without the onus of sovereign responsibilities that result in multiple objectives and non-commercial orientation for PSENDs.

Finally, the emergent paradigm for the 1990s is clearly oriented towards market functioning under state-supervision. It signifies a departure from the state-controlled and regulated paradigm of the last four decades that prevailed over many economies. The changing dimensions of 'public' and 'private' come into sharper focus and prompts a sequencing pattern more in tune with structural adjustment along the following lines: (a) privatise all manufacturing, trading, and financial sectors; (b) privatise and regulate in infrastructural facilities allowing for both public and private sector units; and (c) reallocate public sector investment to soft infrastructure development strategic sectors, and if necessary, retain them in hard infrastructure for a limited period of time.

IV
Inter-Sectoral Nexus Privatisation and Financial Sector

Interlinkages between the different sectors necessitates a design of sequencing in liberalisation policies very similiar to the sequencing of privatisation that we outlined earlier. The interlinkage nexus is most clear with regard to privatisation and the financial sector. Studies[12] have established that a policy of privatisation facilitates financial sector reforms at the later stage. In the initial stage there is no sufficient evidence to prioritise either public sector reforms or financial sector reforms. A heuristic presentation in Table 13 in a nutshell defines the interrelationship. There are three areas of overlap. They are: (i) mobilising resources; (ii) allocating resources; and (iii) corporate governance. The overlap can be both competitive and collaborative. These roles can be better understood for FIs when presented heuristically. Table 13 shows the linkage between privatisation and financial services with special emphasis on FIs.

(i) ***Mobilising resources***: Mobilising resources in the privatisation phases can be divided into two dimensions. The first dimension is the mobilisation of resources

TABLE 12: COMPARISON OF SELECT PUBLIC AND PRIVATE ENTERPRISES

PAT/NW PAT/CE	1991	1992	1993	1994	1995
Steel					
SAIL (PSE)	5.16	7.28	7.88	9.47	16.71
	2.54	3.38	3.44	3.54	6.50
TISCO (Pvt)	11.24	12.98	6.00	7.16	9.83
	6.27	5.94	2.61	3.15	4.40
Metals					
Balco (PSE)	0.03	0.18	0.37	2.95	..
	0.02	0.13	0.28	2.36	..
Nalco (PSE)	4.85	3.84	8.12	8.75	14.81
	2.20	1.42	3.16	3.81	7.90
Hindalco (pvt)	3.08	25.25	20.67	17.87	19.64
	3.52	15.20	13.69	13.70	15.73
Indian Aluminium (pvt)	6.72	15.89	17.42	11.10	16.66
	9.20	9.21	9 20	7.93	12.21
Chemicals					
IPCL (PSE)	8.22	7.60	13.70	7.00	..
	2.97	2.31	5.02	3.17	..
Reliance (pvt)	10.66	4.72	12.31	13.28	14.00
	6.39	2.36	6.56	8.39	11.10
Fertilisers					
FACT (PSE)	6.04	6.90	0.68	2.85	15.07
	4.48	5.21	0 52	2.36	13.27
NFL (PSE)	4 17	10.83	12.97	32 45	.
	2 63	8.50	11 35	30 79	..
Gujarat Narmada	14.31	18.34	8.90	-2 35	15 61
Fertilisers (pvt)	3 58	4.95	2 38	-0.90	8 98
Zuari Agro Chemicals (pvt)	13.58	15.11	15.81	19.09	29.54
	9.73	11.15	10.00	10.86	16.47
Engineering					
BHEL (PSE)	4 41	15.79	12.72	11 99	11.34
	2.53	6.92	5.60	5.58	6.08
Balmer Lawrie (PSE)	11.61	13 51	17.73	16.63	..
	6.91	7.27	9.42	9.05	..
L and T (pvt)	38.31	25.76	10 31	9.16	15.17
	21.77	19.48	8.08	7.45	13.27
Textool (pvt)	48.70	15.15	11.33	29.93	24.29
	21.77	14.78	10.71	21.56	21.67
Kirloskar Electric	14.77	13.95	12.82	9.71	100.00
Co (pvt)	5.82	5 98	6 79	7.13	7.32
Widia India (pvt)	22.27	20.38	17.71	18.84	..
(December)	13.05	10.65	10 03	12.36	..
Asea Brown Boveri (pvt)	18.91	25.18	19.76	23.71	..
(December)	13.06	18.21	17.16	21.97	..

Source: CIMM Data Base, Centre for Monitoring Indian Economy.

TABLE 13: INTER-LINKAGES BETWEEN PRIVATISATION AND FINANCIAL INSTITUTIONS

	Pre-Privatisation Scenario	Privatisation Scenario
Mobilising resources -to finance enterprises and later -to privatise enterprises -to liquidate enterprises	-Taxes and budgetary support -funds channelled through public sector FIs	-FIs (public and private sector) through public money; new sources of funding -capital markets
Allocating resources	directed priority -direct and indirect government subsidies and guarantees -funds through publicly owned FIs -credit restrictions on the few private banks	-FIs based on their own credit evaluation of the enterprise within the constraints of prudential norms. -capital markets
Corporate governance of enterprises	-government or the relevant ministry	-FIs as both shareholders and providers of loanable funds -capital markets

for participating in the equity dilution of public enterprises. The initiai rounds of disinvestment of equity were limited only to public sector FIs. The four rounds of disinvestment involved Rs 9,512.78 crore. If all PSENDs were to come on to the market, the amount of minimum resources required would be around Rs 50,000 crore which represents the extent of government equity holding in PSENDs at the centre. These resources will obviously have to come from the capital markets, FIs and foreign investors. The second aspect of mobilising resources arises from the withdrawal of budgetary support to PSEs while increasing their dependence on internal and extra budgetary sources. PSEs have to look for financial resources from the FIs, capital markets and foreign investment.These are resources both for operating capital and new investment.

The issue is where do FIs find the funds? Domestically they can tap the capital market, tap the retail market or borrow from the money market. At present, the main source of domestic resources are household savings. The RBI estimates show that 26 per cent of household savings go to the corporate sector through the capital markets, while household savings has reached a plateau. Draft on the household savings by FIs is limited and requires new innovative schemes to attract investment. All these add to the cost of funds mobilised. Furthermore, the FIs have to compete with schemes of the corporate sector including public sector bonds. The alternative option open is to tap the international market through the bond route or the equity route. Here again there is competition from the corporate sector. As a result both FIs and the PSEs will be competing for the same source of funds. Mobilising resources is a major task for FIs who are now experimenting with new instruments which are largely derivatives. This adds to the risk of FIs.

(ii) *Allocating resources*: In a privatising economy resource allocation to enterprise becomes a difficult task. Firstly, rapid industrial growth requires the easy and quick availability of credit at low rates of interest. FIs used to operating under conditions of diktat have now to arrive at their own criteria of creditworthiness in allocating funds to enterprises. The major problem for FIs is however in the provision of funds to the non-tradable sector, viz, the infrastructure sector, where the demand will be mainly from the new entrants of the private sector. To get an idea of the dimensions involved CMIE estimated on the basis of proposed investments (both in the pipeline and those announced) that in the infrastructure leaving out telecommunications investment works out to Rs 4,40,617 crore. If we add another Rs 90,000 crore which represents the amount that would be normally forthcoming from public sector investment in these areas, the amounts involved are very large. At present the total disbursements of FI's is in the range of Rs 25,000 crore

There are two issues here. The first issue which overlaps with the earlier section is where to find the funds? The second issue for FIs is how to match their loan portfolio with the provisions of the new prudential norms. A major concern in the case of infrastructure lending is the mismatch between borrowing short and lending long. FIs have to show innovativeness such as loan syndication, develop new instruments such as special vehicles of credit, tap new sources such as postal savings.

(iii) *Corporate governance*: Monitoring managers becomes very important for FIs. In the earlier regime of directed credit with access to cheap sources of funds monitoring was based on different criteria. In the case of PSE accountability of managers was accountability to CAG without clearly defined commercial objectives. In a privatised scenario FIs have to monitor the performance of managers both from the viewpoint of a lender and from the viewpoint of shareholder. And, there is a difference between the two perceptions. Till of now the first role was non-existent while the second role through the nominee directors was purely ornamental.

The issues here are: Are the FIs geared to their new role? What is expected of them as a lender? Are they to look for merely repayment of loans? In which case new investment such in R and D, or the problems associated with sunk costs in the case of infrastructure expansion may not be appreciated. What is expected from FIs as a major shareholder? Here the incentive system works from the perspective of an owner and not that of a manager.

The brief illustrations of the nexus between privatisation and financial sector are only to underscore the need for a policy on privatisation, in whatever form. Successful privatisation in the UK, New Zealand and elsewhere have shown that an important component of privatisation is the scope for mobilising resources for equity and also of servicing the debt of enterprises. Sequencing of privatisation and prioritising industries aids in preparing a time frame for FIs. Their experience underlines the need for a comprehensive policy on privatisation.

A non-policy on privatisation as it prevails now in India has its impact on the economy. Lack of policy might favour the considerations of political expediency in the short run but at the cost of sacrificing sound economic management in the long run. This proposition has broadly been vindicated by our enquiry on three aspects of privatisation including fiscal, efficiency and intersectoral nexus. Of course, the impact of privatisation in these three areas has varied. From all the three angles the lack of a comprehensive policy on privatisation defuses the scope for realising the potential gains of privatisation. For instance, as a fiscal measure privatisation through disinvestment has had a marginal impact on the budget without generating the required efficiency forces of ownership transfer on the functioning of PSEs. The present policy of covert privatisation through gradual dilution of equity leaves the present PSE management with less teeth than merited by competitive conditions. In order to use the weapon of privatisation for efficiency it is necessary to plan the areas open to competition and those that have traces of natural monopoly where government control may still be required. Such planning is part of a policy on privatisation. Finally, the present status of financial sector reforms suggests that a policy of privatisation may smoothen the process of reforms. In essence, a comprehensive policy on privatisation requires to be formulated towards the full realisation of the potential of economic reforms.

Notes

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1 This broader definition of privatisation was first popularised in the APDC study *Privatisation and Public Enterprise: The Asia-Pacific Experience*, Geeta Gouri (ed), Oxford and IBH, New Delhi, 1991.

2 See these with reference to Plan Documents, New Industrial Policy etc.

3 In fact, the lack of a policy on privatisation has been regarded as the one of the determinants of the incomplete agenda of liberalisation See A Chopra, C Collyns, R Hemming, K Parker, W Chu, and O Fratzscher, *India Economic Reform and Growth*, IMF, Occasional Paper 134, Washington, 1995

4 The exceptions to market discipline are where there are market failures. In the literature on public sector and public ownership they relate specifically to public goods and natural monopolies.

5 Classification and categorisation is as per the coverage of the Public Enterprise Survey, department of public enterprise, ministry of industries, government of India The normal practice is to consider PSEs non-departmental under the central government to be those listed by the department of public enterprises in their annual survey. The survey has a separate section on financial institutions (excluding public sector commercial banks) but this category does not form part of the main section in the survey.

6 Op cit.

7 Ahluwalia has estimated that the public sector take up 55 per cent of total investment hat account for only 15 per cent of output. I J Ahluwalia, *New Economic Policies: Reform of Public Sector Enterprises and Privatisation in India*, mimeo paper, Centre for Policy Research, New Delhi, 1994

8 Sunita Raju and C V Baxi, 'Efficiency Through Competition: Evidence form Public Sector Reforms in India', (memo paper).

9 Government of India, *Economic Survey*,

10 This has lead to the demand for privatisation of the private sector.

11 The Statement of Industrial Policy 1991 was the first basic document that outlined the strategy for PSENDs. The following dimensions were enumerated in the policy. (1) restructuring the portfolio of investments; (2) restructuring the equity (ownership) pattern of PSEs; (3) restructuring the quality of interface between the government and the PSEs, (4) restructuring the boards; (5) restructuring the sick enterprises; (6) restructuring the safety net; and (7) restructuring the policy environment.

12 These six industries are defence products, atomic-energy, coal and lignite, mineral oils, railway transport, minerals specified in the schedule to the Atomic Energy Order 1953.

13 The central corporations are the National Thermal Power Corporation, Nuclear Fuel Corporation, North-East Power Generating Corporation, National Transmission Corporation and of course the grids.

14 The common minimum programme (CMP) of the present government talks in terms of retaining public sector in core and strategic areas, without defining either core or strategy Presumably PSE that do not fall into this category will be privatised The modality of privatisation will be worked out be a special committee on disinvestment set up by the government

15 Y Venugopal Reddy, *Privatisation-Approaches, Processes and Issues*, Galgotia Publications, New Delhi, 1992

16 Budget Papers, Government of India.

17 A Chopra, C Collyns, R Hemming, K Parker, W Chu and O Fratzscher, *India: Economic Reform and Growth*, IMF, Occasional Paper 134, Washington, 1995.

18 One estimate places the revenue lost due to under valuation as Rs 8,917 crore in 1991-92, Rs 805 crore in 1992-93 and Rs 91 crore in 1993-94. A back of the envelope calculation shows that equity in PSENDs in 1993-94 was about Rs 23,006 crore. If 20 per cent were sold at par value disinvestment accruals will be Rs 46,000 crore. Another important issue that has not been given much prominence is the ability of the market to absorb even 50 per cent of disinvestment of PSEND and when combined with requirements of the public sector (i e, both PSENDs and PSEDs including FIs) the figures are enormous. Swati Kamal, 'The Politics of Disinvesment', *The Economic Times*, December 8-14, 1995.

19 Disinvestment in PSEs.

Name of the PSE	Percentage of Government Holding July 1 1991	Percentage of Government Holding December 31, 1994
Andrew Yule	71.30	62.80
Bharat Earthmovers	100	60.08
Bharat Electronics	100	75.96
Bharat Heavy Electricals	100	68.46
Bharat Petroleum Corp	100	69.62
Bongaigoan Refineries	100	74.58
CMC	100	83.31
Cochin Refineries	61.6	55.04
Dredging Corp	100	98.58
Fert and Chemicals (Travancore)	96.99	97.36
HMT	100	90.32
Hindustan Cables	100	97.37
Hindustan Copper	100	98.89
Hindustan Organic Chemicals	100	56.90
Hindustan Petroleum Corpn	100	62.72
Hindustan Photo Films Mfg	100	87.47
Hindustan Zinc	100	75.93
Indian Petrochemicals Corpn	100	62.40
Indian Railway Const Co	100	99.74
Indian Telephone Industries	99.65	77.67
Madras Refineries	84.62	51.80
Mahanagar Telephone Nigam	100	67.18
Minerals and Metals Trading Corp	100	99.33
National Aluminium Co	100	87.19
National Fertilisers	100	97.65
National Mineral Development Corp	100	96.38
Neyveli Lignite Corpn	100	94.18
Rashtriya Chemicals and Fertilisers	100	92.50
Shiping Corp of India	100	80.12
State Trading Corp	100	91.02
Steel Authority of India	100	89.30
Videsh Sanchar Nigam	100	85.00
Container Corp of India	100	80.00
Indian Oil Corp	99.85	88.17
Oil and Natural Gas Commission	100	98.00

Source: Government of India, *Economic Survey 1995-96*.

20 The CMP has not defined core and strategic sectors. But broadly they would covers these enterprises.

21 GATT, *Trade Policy Review Vol I and II: India, Geneva, 1993*.

22 PSEs were subject to taxes but often income-tax authorities were lax on the matter.

23 Centre for Monitoring Indian Economy (CMIE), *The Indian Corporate Sector*, April 1995, Bombay and their computerised data base CIMM.

24 Ibid.

25 CMIE.

TABLE: AVERAGE INTEREST COSTS: PUBLIC VS PRIVATE SECTOR

(Per cent)

	Public	Private
1990-91	8.60	12.40
1991-92	9.57	12.71
1992-93	9.42	13.38

Source: *Statistical Profiles of 200 Public Sector Enterprises*, Centre for Monitoring Indian Economy, April 1994.

26 Ibid.

27 Op cit.

28 Y Venugopal Reddy and S Joshi, 'Public Enterprises and Budget Linkage', (mimeo), paper presented at the Lal Bahadur National Academy, Mussorie 1994.

29 At one point Kudremukh was considered a lost case of incomplete project appraisal. The remarkable turnaround is noteworthy.

30 Op cit.

31 In this connection the government of India has set up a high powered committee to find the right criteria to be used to measure financial performance and the validity of such indicators where performance are not related to factors under the control of PSEs such as administered price schemes Often gross profit is preferred to net profit. The Institute of Chartered Accountants have suggested the simple cash flow statement to be the main disclosure. *The Chartered Accountant*, Vol XIV, No 7, January 1996

32 Aslt Demirigic-Kunt and Ross Levine, *The Financial System and Public Enterprise Reform*, Policy Research Working Paper (1319), The World Bank, July 1994.

Automotive Industry in Emerging Economies

A Comparison of South Korea, Brazil, China and India

Avinandan Mukherjee
Trilochan Sastry

The automotive industry in South Korea, Brazil, China and India is currently going through impressive growth. Governments have played a key role in the evolution of the industry in all these countries. South Korea, a relatively late entrant to the automobile industry, has made the most significant progress, and is now exporting cars to developed markets. It is the only country that invested in R and D for product development, retained management control in joint ventures with multinational companies (MNCs), and had ambitious export targets. The industry in Brazil is older than that in South Korea, but indigenous product development capabilities are lacking and manufacturing competitiveness is limited even though the industry is entirely controlled by MNCs. The Indian industry is experiencing a revolution with rapid growth and the entry of the largest number of MNCs. The Chinese industry is also growing very rapidly although it is still highly fragmented. We trace the evolution of the industry in these growing markets and explore the linkages between government policy, the degree of managerial control and indigenous capabilities and competitiveness.

SOUTH KOREA, Brazil, China and India on the one hand, and Thailand, Mexico, Malaysia, and Indonesia on the other hand are all late-industrialising nations. But, as Amsden and Kang (1995) argue, there is a basic difference between the two groups with regard to the current and future status of their automobile industries. The second group of late industrialising countries, comprising Thailand, Mexico, Malaysia and Indonesia have built an indigenous automobile industry to restrict outflow of precious foreign exchange and to meet local demand. These countries do not intend to become major players in the global automobile industry in the near future. On the other hand, the first group of late-industrialising countries, namely, South Korea, Brazil, China and India are building significant manufacturing capabilities and have the potential to become significant players in the world automobile industry. South Korea has already become a significant exporter. The sheer size and market potential of China and India and impressive rates of economic growth suggest that they could emerge as significant players in world markets. Amsden and Kang (1995) call this group of countries "emerging economies or manufacturers" and not just "emerging markets."

The evolution and current state of the automobile industry in these emerging economies are not identical. The objective of this paper is to do a comparative analysis of the automobile industries in these four countries and identify some factors that seem to lead to better performance.

There are some major differences between these countries and the developed nations. First, industry evolution has been influenced considerably by government policies and regulations in all these countries. However, this may not necessarily impede growth and development since these governments sometimes play a supportive role that helps build long-term capabilities. Second, infrastructure in roads tends to be poor. This has implications for the long-term growth of the industry. The level of technology and manufacturing capability tends to be highly varying with very few world class plants and many others at a fairly mediocre level. The supplier industry is also not well developed, and product development capabilities tend to be poor except perhaps in the case of South Korea. These markets are also much more price sensitive than developed markets. This is perhaps because the ratio of car prices to incomes is much higher in emerging markets. On the positive side, assembly costs in these countries are lower by at least 30 per cent [O'Brien and Karmokalias 1994], although this does not give any significant advantage since assembly costs are a small proportion of total costs.

The economic performance in 1994 of the automobile industries of South Korea, Brazil, China and India, based on a few important dimensions, is given in Table 1. The data include sales of all vehicles (include those other than passenger cars).

These four countries together accounted for about 7.7 per cent of world sales in 1994. As is clear from the table, India and China offer huge untapped markets and their growth rates are also impressive. However, the volume of trade with the rest of the world is very low. South Korea and Brazil on the other hand have significant exports, but few imports. There are likely to be opportunities for foreign companies since these emerging markets cannot develop without help from outside. In China, the share of passenger cars in total vehicle sales is very low at 15 per cent.

Industry Evolution

The evolution of the automobile industry in these countries has some interesting differences. Amsden and Kang (1995) trace significant developments in the South Korean industry. The South Korean automobile industry started production in the early 1960s and initially gained experience through CKD manufacture, and started mass production with a single model (the Pony). Three large diversified South Korean companies emerged in the automobile market – Daewoo, Hyundai and Kia. These companies gained knowledge and experience through joint ventures with MNCs, although they never surrendered management control. Later they developed their own models for the world market. Government policies clearly encouraged exports, and by 1993 they were exporting 38 per cent of their production. Industry evolution has been driven by the need to grow and export by passing through the stages of CKD manufacture, foreign collaboration with South Korean managerial control, mass production and export of a limited number of models, gradual adoption of lean production and finally, acquiring product design capabilities to try and become truly international.

The Indian automobile industry was governed by regulations since the country became independent in 1947. Imports, collaborations and equity ventures were severely restricted by the government. Capacity expansion was restricted and required licences issued by the government, and technology transfer from foreign companies was subject to government approval. In 1981, the government decided to set up Maruti Udyog in collaboration with Suzuki Motor Company of Japan, the first MNC to enter the country. Maruti started

mass production by introducing a "people's" car in the economy segment. This led to a boom in demand for automobiles in India. With a current capacity of about 2,50,000 vehicles, Maruti is the clear market leader with about 70 per cent market share in 1995.

Market liberalisation in 1991 and a change in policy allowed free entry to foreign companies. MNCs have not chosen to enter on their own and have entered into joint ventures with Indian partners. Unlike the South Korean industry which grew from CKD manufacture to a significant exporter of cars, the Indian automobile industry's growth seems to be currently led by immediately available opportunities in the domestic market. Several large assemblers have entered the Indian market through joint ventures. Unlike South Korea, managerial control is with international companies. As of date, no Indian company has plans to become a significant global player except perhaps Telco which is about to launch indigenously designed vehicles in international markets. The component industry however, has a long way to go to meet the challenge. Therefore, the assemblers are initially importing knocked-down kits, and are slowly indigenising. Several assemblers are encouraging their own overseas component suppliers to enter India through joint ventures with local supplier firms. One can characterise the industry evolution as a movement from strict government regulations to an industry driven by growth prospects, foreign managerial control, minimal government interference except for duties and taxes, and no major thrust towards becoming truly global or acquiring capabilities in product development. However it may emerge as a significant exporter since domestic market may not be able to sustain 18 companies in the country.

The development of the Brazilian automotive industry has been described by Ferro (1995). The industry initially started off with the objective of import substitution in the 1950s. However, unlike Indian government policy at that time, foreign companies were allowed to enter with full management control, and Volkswagen, General Motors and Ford were major companies in Brazil for a long time. However, isolation from world trade hampered industry development. Much later, in 1990, the government opened up the market to imports. Current growth has been led by the 'popular' car in the economy segment. The Brazilian industry has also not invested significantly in product development. Efforts are on to adopt lean manufacturing practices, although the supplier industry continues to be a major bottleneck. Government policy on duties and taxes has been vacillating leading to cyclical demand over the years. The evolution of the Brazilian industry has been a transition from import substitution to integration with world markets, fluctuating duties and taxes, government led price reductions, thrust towards adoption of lean production and growth led by the 'popular' or small car segment. No indigenous Brazilian automotive company has emerged so far and there is no thrust towards acquiring product development capabilities.

The evolution of the industry in China has been described in detail by Yang (1994). The Chinese automobile industry had a different evolution. The industry has always been highly fragmented and in 1979 there were 130 assemblers who made 1,86,000 vehicles, with most of them making only hundreds of vehicles. By 1993 there was some consolidation into "combined management companies" and there were 40 assemblers producing about 5,00,000 vehicles. Further, unlike South Korea, Brazil and India, passenger car production has been a very small percentage of total production, and was 15 per cent in 1994. Autonomy provided to provincial governments led to dispersed development by foreign collaborations. The

TABLE 1: ECONOMIC PERFORMANCE OF AUTOMOBILE INDUSTRY, 1994

Dimensions	South Korea	Brazil	China	India
(1) Share of world vehicle sales volume (per cent) (1994)	2 5	2 2	2.0	1.0
(2) Growth in share of world vehicle sales volume (1991-95)	8.7	12.4	42.86	42 86
(3) Production (million units)	1 5	0.96	0.51	0 34
(4) New registrations (million units)	1 05	0 77	0.62	0.34
(5) Share of output exported (per cent)	25	20	0	5.0
(6) Share of inputs imported (per cent)	<1	0	6 0	<1.0
(7) Share (per cent) of passenger car in total vehicle sales	68	75	15	60
(8) Persons per car	12.4	11.4	245	200

TABLE 2: KEY ELEMENTS OF GOVERNMENT POLICY

	South Korea	Brazil	China	India
Local content requirements	Not an issue	High	High	None*
Import duty (per cent)				
Full vehicles	25	70	50	110
CKD/SKD		30	30	50
Parts/components	15	20	25	50
Exice duty (per cent)	10-25	20-35	High	40
State ownership	Absent	Absent	High	Low

Note: * Capacity expansions require government licences and may depend on the level of indigenisation.

TABLE 3: COMPARISON OF CAR ASSEMBLY INDUSTRY

Country	No of Assemblers	Growth in No of Assemblers (Per Cent) (1985-1995)	Output Share of Top 3 Firms (Per Cent)	Growth in Output Share of Top 3 Firms (Per Cent) (1985-1995)	MNCs Present
Korea	6	100	95	-5	Mazda, Mitsubishi, GM, Ford, Honda, Mercedes
Brazil	5	28	95	15.8	GM, Ford, VW, Fiat,
China	18	38.5	48	4.3	GM, VW, Chrysler, Peugeot
India	5	100	88	17.33	Suzuki, Peugeot, GM, Ford, Fiat, Daewoo, Mercedes, Rover, VW*

Note: * Hyundai, Mitsubishi, BMW have announced plans to enter in the years 1996-98. Audi plans to sell cars without local manufacture.

TABLE 4: AUTO COMPONENTS INDUSTRY

	South Korea	Brazil	China	India
No of firms	1100	550	250-300	350
Turnover ($bn)	12	15	5	2.6
OEM:RM Split	80:20	50:50	50:50	20:80
Overseas collaborations	Many licensing agreements	20 per cent of firms are foreign affiliates Many licensing agreements	60 per cent of firms have Japanese links	38 per cent of firms have foreign tie ups
Exports	10 per cent of sales	15-20 per cent of sales	20 per cent of sales	10 per cent of sales

strategy was to obtain foreign capital and technology, and they were forced to give managerial control to international partners. Of late the government has been trying to push a "people's car" in the economy segment. This is similar to what happened in Brazil and India where the small car led industry growth. The industry is in the process of developing its supplier base, and probably has some way to go before it acquires product development skills. It is also probable that unlike Brazil and Korea, there will be no major thrust toward adopting lean production in the near future.

Industry evolution has therefore been led by government policy, notably the degree of autonomy given to provincial governments, attempts to consolidate a highly fragmented industry, acquisition of foreign capital and technology, relatively weak Chinese managerial control in joint ventures, and a thrust towards growth and development. Impressive economic growth and a large population with a very low number of cars per thousand people suggest that demand is likely to grow significantly.

Government Policies

The Indian government has made significant shifts in its automobile policy. Ever since independence, the government considered the passenger car as a luxury item, and imposed very high tariffs. After the economic liberalisation launched in 1991, the government of India announced a new automobile policy in June 1993. Excise duties varied over the years as follows:

Year	Excise Duty (Per Cent)
1984-85	15
1990-91	42
1991-92	66
1992-93	56
1993-94	40

The import duty on car components was increased from 40 per cent to 75 per cent during 1984-91 and brought down to 50 per cent recently. Thus duties and taxes continue to be high by international standards. These might be brought down as the industry becomes more competitive.

The Brazilian government's role has also undergone changes in the recent past. Previously, the focus of government policy was on import substitution, as is typical of most developing countries. The government is now trying to improve the global competitiveness of the Brazilian automobile industry by opening it up to imports. At the same time, the government is also introducing supportive measures to rejuvenate the domestic industry. Some of these measures are: new institutional arrangements involving the entire supply chain including the importers, unions and government agencies, tax reductions, and pushing the 'popular' or small car by differential taxes. Import duties have varied a lot in the last five years as shown below:

Year	Import Duty (Per Cent)
1990	85
1991	60
1992	50
1993	40
1994	35
Feb 1995	20
April 1995	70

Some stability in policy is probably needed for faster development of the industry.

The influence of the Chinese government in shaping the country's automobile industry has been significant. China's progress from the command to the market economy, and the autonomy given to provincial governments has helped in growth. The government also succeeded to some extent in consolidating a highly fragmented industry. The Chinese government now identifies the auto industry as one of China's 'developmental pillars' and has been trying to attract foreign investment to improve technology. It has even accepted its role as a minority partner in some ventures. The government is also encouraging the "people's" car. Although managerial control is with foreign companies, they are obliged to raise the domestic content of car subassemblies. Unlike its Indian counterpart, the Chinese government has linked import duties to the level of indigenisation achieved. The government has also played an active role in restructuring manufacturer-supplier relations.

The role of the South Korean government has perhaps been the most positive among all the four countries. This is because the South Korean government has always supported as well as disciplined South Korean industry through export targets and incentives and through price controls. Overseas investments were encouraged by subsidised credit, and technology infrastructure improved through imports. The industry also enjoys trade protection. It is interesting to note that price controls seem to have had a positive impact in South Korea, forcing companies to improve productivity and efficiency by cutting costs. However, in Brazil, these controls were perhaps counter-productive. This may be due to high rates of inflation, leading to severe pressures on profit margins and adversely affecting assembler-supplier relations. It is also likely to have had an adverse impact on growth.

Table 5: Summary of Comparison of Four Countries

	South Korea	Brazil	China	India
Evolution	CKD-mass production of one model, exports, building skills in product development	Import substitution, growth and entry of 4 MNCs, foreign managerial control	Highly fragmented industry, consolidation, joint ventures with MNC control, growth	Government regulations, growth, entry of 13 MNCs, foreign managerial control, deregulation
Major products	Mid Size	Small Car	Small Car	Small Car
New product development	Capability exists although suppliers are lagging behind	Indigenous capability lacking	Indigenous capability low	Except Telco, capability lacking
Managerial control	With Korean companies	With MNCs	With MNCs	Usually with MNCs
Lean production	Gradually adopting it	Thrust towards lean production	Marginal	Marginal
Goal of technology strategy	To become world class and global. Investing heavily in R and D	To facilitate growth and efficiency. Low investment in R and D	To meet domestic needs. A catch up strategy	To facilitate growth Low investment in R and D
Suppliers	Moving towards world class status. Some are able to design proprietary parts	Getting restructured for lean production. Acquiring design capabilities	Growing rapidly through joint ventures	Growing rapidly through joint ventures
Government role	To help investments abroad, and to upgrade technology infrastructure Disciplining and supporting industry	Fluctuating tariffs, price controls, heavy taxes except for low priced 'popular' cars	Acquiring technology and managerial expertise through joint ventures	Largely restricted t[illegible] duties and excise. N[illegible] clear policy as yet.

Another factor might have been that unlike South Korea, there was no drive to acquire, absorb and develop technology and products, which in turn was driven by the need to export. Price controls thus worked well in an industry with higher levels of capability, whereas they were counter-productive in an industry at an earlier stage of evolution.

State participation in assembly units is high in China. The joint ventures with Peugeot, VW, Chrysler, and GM have state participation in equity. India's largest assembler, Maruti, is a 50-50 venture between the government and Suzuki. However government participation is absent in all other companies. State participation in equity is completely absent in South Korea and Brazil. Table 2 summarises some of the key elements of government policy.

The car assembly industry of the four countries has been compared in Table 3, based on the number of firms, level of concentration, and the major MNCs present in the country.

The auto component industry of these countries differs in the number and size distribution of component firms, and other characteristics, like turnover, OEM/RM split, equity, and export performance (Table 4).

One of the reasons for the success of the South Korean automobile industry is the closely knit assembler-supplier structure. The automobile assembler companies belong to large chaebols (conglomerates). Thus, they have affiliate firms within the conglomerate supplying them with parts, machinery, software or information, and even financing. Suppliers have invested heavily in learning both from assemblers and from foreign supplier companies, and have become more capital-intensive and specialised. The result is improved performance, and ability to design some proprietary parts. This has helped assemblers to enter world markets. Such close assembler-supplier relations within the same business group or conglomerate is not present in India, Brazil or China. The industry size in India and China is much smaller than in South Korea and Brazil, although growth rates are much higher.

Extent of Adoption of Lean Production

The extent to which these emerging economies have adopted lean production varies. South Korean companies argue that lean production can be successful only when there are large volumes. Since the South Korean companies have relatively low volumes, they have not adopted lean production. JIT is not practised because of the very low volumes that would be transported, the poor quality of part suppliers and the instability of the process due to rapid introduction of new models and rapid growth. Other elements of lean manufacturing like developing multi-skilled workers and allowing workers to stop the assembly line are not practised perhaps because of the current emphasis on growth in volume and exports. However, they are aware of the benefits of lean production, and consider lean production as a goal to be achieved in the near future.

The experiment with adoption of lean production in Brazil seems to have borne fruit [Ferro 1993]. In spite of cultural factors like high power distance and an authoritarian social structure which inhibit the diffusion of lean production, the Brazilian industry has been able to make use of the motivated and trained workforce to push acceptance of lean manufacturing approaches, like teamwork, training, participation, involvement and commitment of workforce, increased communication and decentralisation, emphasis on problem-solving activities, reduction of quality inspectors, and flatter structures by cutting managerial and supervisory layers. The results are reduced inventory and lead time, reduced defects and increased productivity.

Since the Indian industry achieved significant production volumes only in the mid-1980s with the arrival of Maruti, the transition to lean production is likely to take time. However, with many automobile makers entering the growing Indian market, lean production is likely to be adopted. The success of lean production at the industry level depends not only on the efforts of the assemblers, but also on the suppliers and on institutional and cultural factors. A very important obstacle in adopting lean production is that a large proportion of components are imported in the form of CKD/SKD kits by the new entrants. Distances of suppliers from assemblers are frequently high. The bargaining power of suppliers for some components is high, because of their small number. They accept only large orders. It is likely that after the shake out which many analysts expect, adoption of lean production will take off more rapidly.

There is not much information available about the diffusion of lean manufacturing practices in China. However, given the diffused nature of the industry and the low volumes generated, it is expected that the Chinese industry has a long way to go before it can adopt lean manufacturing as an industry paradigm.

Implications and Conclusions

Table 5 summarises the comparison between these countries. The South Korean industry, a later entrant than Brazil, has progressed much further. Government support, a clear vision of becoming an export-oriented world class industry, retaining management control, investing in R and D, and acquiring product development capabilities have helped it to grow and develop fast. The other three countries have not invested in capability building to the same extent. Brazilian plants are simply overseas plants of MNCs. Indian plants are joint ventures with MNC control. It is unlikely that significant R&D will be done there. In Brazil, China and India, industry growth is led by the small car segment. Lean production has not been adopted in a significant way, except perhaps in Brazil. The relatively poor development of the supplier industry is still acting as a deterrent to rapid growth.

Uncertainty exists about the extent of growth, the degree to which suppliers can meet demand, and the prospects for an individual company. MNCs have followed the practice of introducing successful models to these markets. It remains to be seen whether this strategy will succeed. South Korea is a market for overseas MNCs, but is emerging as a trade partner rather than a major net importer of cars. However, opportunities exist for overseas supplier companies in South Korea. With stagnation in developed markets and huge additions of capacity in emerging markets, the monopoly of developed nations over car production could erode, although they will continue to dominate product development.

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Small-Scale Chemical Industry in Gujarat
Structure, Conduct and Performance

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This is an empirical study based on the primary data from a sample of 208 small-scale chemical units in Gujarat for the years 1986 through 1990. The details on the various dimensions of the structure, conduct and performance are presented and the nexus among them is examined. The findings suggest no unique relationship among structure, conduct and performance. However, each of middle age, partnership form of organisation and location in Baroda/Ahmedabad districts has, in general, proved a beneficial structural feature from the point of view of performance.

I
Rationale

A STUDY of the small-scale chemical industry in Gujarat has been attempted, for the growth of the Indian economy hinges significantly on the growth of its industrial sector, of which chemical industry happens to be a major component, Gujarat enjoys the number one position with regard to chemical industry in India, and the small-scale industrial sector is encouraged to generate employment and to combat inequalities. A quick look at the data would indicate that the small-scale sector is a significant component of India's industrial sector. According to the second census of modern small industrial units (1987-88), there were 9.87 lakh units in the census frame, and the data from 5.82 lakh of these units account for 36.7 lakh employees, Rs 9,296 crore of fixed capital and Rs 43,220 crore of output (at current prices) [1]. Gujarat with about 6 per cent of these units occupies the fifth position, the first four being Uttar Pradesh, Madhya Pradesh, West Bengal and Andhra Pradesh, respectively.

Chemical industry enjoys the highest weightage of 12.51 per cent in the country's index of industrial production. Further, this industry sector has grown at the annual rate of 8.8 per cent during 1980-81 through 1992-93, which happens to be the second highest (next to that of electrical machinery industry) among all industries and is much above the average industrial growth of 6.4 per cent during the corresponding period. An analysis of chemical industry versus all industries in India indicates that in 1988-89 its share in all industries stood at 6.7 per cent in terms of number of factories, 7.3 per cent in employment, 10.4 per cent in fixed capital investment, and 13 per cent in terms of gross output. Gujarat enjoyed the top position among all states with regard to chemical industry with a share of 16.8 per cent in terms of number of factories, 18.9 per cent in employment, 28.8 per cent in fixed capital investment, and 24.5 per cent in terms of gross output during 1992-93 [2]. These shares are generally more than twice of Gujarat's share in all industries in India, which stood at 10.7 per cent in terms of number of factories, 8.5 per cent in employment, 9.6 per cent in invested capital, and 10.9 per cent in terms of gross output in 1988-89 [3].

The second all-India survey of small-scale industry, included data from Gujarat for 2,868 chemical units, having 30,612 employees, Rs 159 crore of fixed capital investment and Rs 747 crore worth of gross output at current prices, with corresponding all-India figures of 25,941 units, 3.14 lakh employees, Rs 881 crore of fixed capital investment and Rs 5,273 crore worth of gross output [1].

II
Approach

No systematic data are published on the small chemical industry at the micro (firm) level. Thus, for the purpose of this study, a survey of the small chemical units in Gujarat state was conducted. A detailed questionnaire was designed for the purpose, which was first administered personally to five units to ensure its effectiveness. Subsequently in 1991, the questionnaire was mailed to randomly selected 1,000 units covering various chemical products. With vigorous follow-up, the filled-in questionnaires were received from 223 units. On editing, some missing/incompatible data were discovered, which were sorted out through personal visits and rejection of a few units from the sample. The final sample thus consists of 208 small chemical units in Gujarat, and the data so collected covered a period of five years, viz, 1986 to 1990. These units constitute 7.3 per cent of all the small chemical units in Gujarat. Incidentally, it may be noted that while all the units under the sample belonged to the small-scale industrial sector at the time of establishment, five of them had crossed over to the medium sector by the time of this survey.

In what follows, the simple averages (mean values) of the corresponding five years, data are considered for the variables in question (the minimum and maximum values for all the variables were obtained but those for only sub-groups I and II are included in the tables, for not complicating the reading) and the compound (exponential) annual rate of increase in a particular variable during the five years is taken as the growth rate. Due allowance for the future must be made for the magnitude of a variable if its current magnitude is to be assessed, but not much change is expected so far as the growth rates and the ratio variables are concerned. The industry's structure, conduct and performance are analysed using the framework developed by Bain [4].

III
Industry Structure

The data pertaining to the structure of the small-scale chemical industry in Gujarat by product groups and the distribution of firms by structural variables are presented in Tables 1A, 1B and 1C. It is observed that about 20 per cent of all the firms are engaged in each of the production of dyes, and dyes and pigments intermediates. Roughly 12 per cent of them produce inorganic chemical (sodium silicate, sodium bisulphite, metal oxides/ chlorides/ sulphates, etc) and about the same proportion of firms manufacture organic chemicals (chloral, nitrochlorobenzene, benzoic acid, etc). The other important products, in the descending order in terms of the number of firms are resins and allied products (8 per cent), pigments (8 per cent), drug intermediates (5 per cent), solvents and plasticisers (4 per cent), drugs (3 per cent), medical products (adhesive tapes, surgical handgloves, diagnostic reagents, etc) (2 per cent) and other miscellaneous products (6 per cent). Incidentally, note that while firms had multi-products, each of them were in only one product group. Thus, while a firm might have produced more than one kind of dyes but then it did not produce any non-dyes product. A majority of the firms (56 per cent) are organised on the partnership form, the rest are private limited companies (28

per cent) and proprietorship-based (16 per cent) firms. This trend is almost universal across various products, barring dyes, pigments, inorganic chemicals, and resins and allied products, where proprietorship is more popular than private form. About 40 per cent of the units are located in Valsad district, Ahmedabad and Bharuch each have roughly 13 per cent of the units, Baroda has 10 per cent , Kheda and Mehsana each have 9 per cent. Thus, most of these units are found on Valsad-Mehsana belt. Some exceptions to this rule are the pigments units, which are heavily concentrated in Ahmedabad, and inorganic chemicals units, which are found maximum in Mehsana.

Small chemical industry in Gujarat is dominated (36 per cent) by non-graduate promoters (owners/directors). The second and third positions are taken by science (25 per cent) and other (19 per cent) graduates, respectively. This was followed by engineering degree or diploma (15 per cent). Thus, the educational and professional background does not merit much in the promotion of chemical units. There is hardly any variation to this rule across products. An overwhelmingly large proportion (41 per cent) of firms borrowed (stole) the technology from other firms, about 26 per cent got it through hiring experienced persons, 22 per cent developed it in-house, and 9 per cent and 2 per cent sourced this through self-experience and buying indigenously, respectively. Exceptions to this trend are found in products like organic chemicals, drug intermediates, and solvents and plasticisers, where the technology was sourced more through hiring experienced persons than any other source. Also, in case of medical products, the main source happened to be through 'self-experience'.

Over 50 per cent of the firms used light diesel oil for their fuel requirement. Other fuel sources, viz, coal, furnace oil, wood, diesel (high speed) oil, etc, were more or less equally used by the remaining firms. The major deviation to this trend was in products like inorganic chemicals, where wood was the most important fuel source, and resins, where other fuel sources (viz, LPG, kerosene, naphtha, electricity, etc) had the dominant role. As regards the mode of sales is concerned, roughly two-thirds of the firms sold directly to the customers, 15 per cent through agents, 13 per cent through brokers, dealers and traders, and the rest through sole selling agents. There were no discerning deviations to this phenomenon across products.

Moving from the structural variables based on the number of firms (Tables 1A, 1B and 1C) to the ones based on the magnitudes of the relevant variables (Tables 2A and 2B), one finds that the average age of a firm in this industry stands at 9.6 years. It is the least (6.1 years) for firms producing solvents and plasticisers, and the most (24.2 years) for those engaged in the production of medical products. The number of promoters for a firm averaged at 3.8 persons, with a range of 3.0 persons each in solvents and resins, and 5.4 persons in drugs. The promoters spent practically all their days (25.9 days/month) in looking after their units, and this was almost uniform across products. These units required 15.7 cubic metres of water per day on average, but this requirement was the least (5 cubic metres) for medical products and the most (25.7 cubic metres) for inorganic chemicals. On an average, a firm had 73.1 kilo watt of connected power. Self-generating capacity of the firms, on an average, was 11.1 per cent of the connected power. The connected power varied significantly across the products, with the minimum of 42.5 kilo watt in pigments and the maximum of 131.9 kw in drugs. The proportion of self-generated power was the least (0.5 per cent) in resins and the most (30.7 per cent) in drugs. Most of the firms had insurance policies and on an average a firm spent Rs 19,200 by way of annual insurance premium. This premium was the least (Rs 6,200) in pigments and the most (Rs 33,300) in medical products.

The annual turnover (sales) of an average firm in the industry stands at Rs 121 lakh, with the minimum of Rs 57 lakh in dyes and the maximum of Rs 356.7 lakh in drugs. The total invested capital was Rs 41 lakh for an average firm, with the least of Rs 22 lakh in dyes and the most of Rs 80 lakh in drugs. The corresponding figures for investments in fixed capital, and in plant and machinery for an average firm stand at Rs 20 lakh and Rs 14 lakh, respectively. An average firm employed 23 persons, of which 17 were workers and out of them 5.8 were skilled workers. Thus, a firm employed six officers/supervisors/staff and 11.2 unskilled workers. The employees were maximum (51.4) in medical products and minimum (11.2) in solvents and plasticisers. The proportion of various categories of employees varied across products. Skilled persons were relatively few (11 per cent) in pigments and about the same (15-20 per cent) elsewhere. It will be interesting to note that the average turnover (Rs 121 lakh) and employment (23 persons) per unit in the sample firms are quite large compared to the corresponding figures for all SSI units in the country, which stand at Rs 11.4 lakh and 5.7 persons respectively [5].

The above structural analysis suggests that the small chemical industry in Gujarat is dominated by dyes and dyes/pigment intermediates, partnership form of organisation, Valsad district location, non-graduate promoters, technology sourced through other competing firms, light diesel oil as the source of fuel and sales direct to the consumers. Further, an average firm has existed for 9.6 years, has 3.8 promoters working almost full-time, requires 15.7 cubic metres water per day, 73.1 kilo watt of power connection, Rs 40.5 lakh of total capital investment, and 23 employees, and generates an annual turnover of Rs 121 lakh. Among various products, manufacturing of drugs is the most capital-intensive, most skill-intensive, and most productive in terms of sales proceeds. The other extreme in these regards goes, in general, to dyes, though with regard to skilled manpower, pigments' need is the minimal.

IV
Industry Conduct

Industry conduct is normally analysed through pricing strategy, product strategy, technology, research and development, advertising, etc. However, in the small-scale sector, some of these factors are either not

TABLE 1A: INDUSTRY STRUCTURE – I

(No of units)

Product Group	No of Units	Organisation Form: Prop	Partner	Pvt	Location (Districts): Ahm	Baroda	Bharuch	Valsad	Kheda	Mehsana	Others
Dyes	41	9	28	4	8	2	10	19	1	1	0
Pigments	16	2	13	1	7	0	2	4	3	0	0
Dyes/pigment intermediates	40	2	20	18	5	3	3	23	2	2	2
Sub-total – I	97	13	61	23	20	5	15	46	6	3	2
Inorganic chemicals	25	5	16	4	2	4	2	4	3	8	2
Organic chemicals	23	2	10	11	2	4	1	9	3	1	3
Drugs	7	1	3	3	1	1	1	3	0	1	1
Drug intermediates	11	0	9	2	0	3	0	5	2	0	1
Medical products	5	2	1	2	0	0	0	0	0	0	5
Solvents and plasticisers	9	2	3	4	0	2	4	0	2	1	0
Resins and allied	17	5	9	3	1	2	1	11	0	2	0
Others	14	2	5	7	2	0	4	2	2	3	1
Sub-total – II	112	19	56	37	8	16	13	34	12	16	13
All	208	32	117	59	28	21	28	80	18	18	15

of much significance or are of a confidential nature. In view of this, the analysis is restricted to factor proportions (technology) by products only, whose data are provided in Table 3.

An average small-scale chemical unit in Gujarat had fixed (equipment and structure) and working (inventories, cash and net debtors) capital in the proportion of 57:43, and equipment (plant and machinery) and structures (land, buildings, furniture, fixtures) in the ratio of 67:33. The former ratios varied significantly across products (minimum of 43:57 in resins and maximum of 70:30 in drug intermediates) while the latter relatively in a narrower range (lowest of 62:38 in inorganic chemicals and highest of 76:24 in medical products). This is expected, for different products' need varying proportion of working capital while the share of plant and machinery in total fixed capital is about the same across products.

A review of the capital-labour ratios across products indicate that organic chemicals, and solvents and plasticisers are the most capital-intensive products while medical products and pigments, in general, are the least capital-intensive ones. In terms of fixed capital alone, while organic chemicals and drug intermediates are the most capital-intensive, medical products and drugs are the most labour-intensive products. With respect to investment in plant and machinery only, drug intermediates is the most capital-intensive, and medical products and pigments are more labour-intensive ones. Thus, if employment generation is the objective, one needs to encourage firms engaged in the production of pigments and medical products. In terms of actual technical ratios, an average firm had Rs 2.12 lakh of investment in total capital per employee, Rs 3.14 lakh of that per worker, and Rs 10.99 lakh of that per skilled worker. The corresponding figures for fixed capital are Rs 1.20 lakh, Rs 1.73 lakh, and Rs 5.74 lakh, and for plant and machinery Rs 0.81 lakh, Rs 1.2 lakh and Rs 3.93 lakh, respectively.

V
Industry Performance

Industry performance is analysed through several parameters, which are classified into financial, physical and economic factors. Due to their confidential nature, no data could be obtained on various measures of the profitability. Data on physical performance as measured by growth rates in turnover, and all three measures of capital input, and capacity utilisation, and on economic performance as measured by factor productivities, value added and contribution to subsidy ratio by products are provided in Table 4.

Table 1B: Industry Structure – I

(No of units)

Product Group	Promoters Qualifications *							Technology Source *				
	Chem Engg	Other Engg	Pharm Med	Sci Grad	Other Grad	Non Grad	Other Prof	Self Expe	Hir Exp Persons	Devel in House	Bought Indig	Other Firms
Dyes	7	6	1	47	31	46	1	4	11	2	1	27
Pigments	7	5	0	19	10	21	0	0	6	4	1	7
Dyes/pigment intermediates	16	10	1	28	39	83	6	4	10	7	0	21
Sub-total – I	30	21	2	94	80	150	7	8	27	13	2	55
Inorganic chemicals	7	3	3	22	20	31	0	1	5	5	1	13
Organic chemicals	13	9	4	19	13	17	7	3	9	9	0	4
Drugs	2	3	1	9	6	18	4	1	2	3	0	1
Drug intermediates	3	1	2	13	3	18	0	0	5	3	1	2
Medical products	0	0	3	6	1	10	2	3	0	1	0	1
Solvents and plasticisers	2	3	3	10	5	3	1	0	4	2	0	3
Resins and allied	8	2	1	10	10	17	3	3	1	6	1	7
Others	4	3	2	7	5	13	0	1	4	5	0	4
Sub-total – II	39	24	19	96	63	127	17	11	30	34	3	35
All	69	45	21	190	143	277	24	19	57	47	5	90

* More than one promoter/technical source for a firm is possible.

Table 1C: Industry Structure – I

(No of units)

Product Group	Fuel Consumed *						Mode of Sales *			
	Light Diesel	Coal	Furnace Oil	Wood	Diesel Oil	Others	Direct	Sole Selling Agents	Agents	Brokers, Dealers and Traders
Dyes	30	3	1	1	0	6	33	0	8	12
Pigments	10	5	0	1	1	0	15	0	1	5
Dyes/pigment intermediates	34	4	0	0	1	1	33	5	7	9
Sub-total – I	74	12	1	2	2	7	81	5	16	26
Inorganic chemicals	5	1	3	8	0	8	24	1	4	3
Organic chemicals	12	2	4	0	3	2	23	3	5	2
Drugs	7	0	1	0	1	0	6	1	1	0
Drug intermediates	9	0	1	0	0	1	11	1	5	1
Medical products	1	0	0	0	1	3	4	0	0	1
Solvents and plasticisers	3	0	0	1	1	4	7	2	3	0
Resins and allied	2	0	2	0	1	12	17	1	6	2
Others	4	2	0	1	1	6	11	2	2	0
Sub-total – II	43	5	11	10	8	36	103	11	26	9
All	117	17	12	12	10	43	184	16	42	35

* More than one fuel/sales mode for a firm is possible.

The growth rate in turnover is very impressive. For all the firms, it stands at 46.6 per cent per annum, with a maximum of 67.3 per cent for firms in dyes/pigments intermediates and a minimum of 19.1 per cent for units engaged in drugs manufacturing. The growth rates in various measures of capital have been close to that in national income. In particular, for all firms, while total capital has grown at the rate of 7.2 per cent, the fixed, and plant and machinery each have grown at about 5 per cent per annum. This implies that the working capital has grown faster than the fixed capital. An analysis of productwise growth rates reveals that the growth rate in capital has generally been more in products like resins and organic chemicals, and less in pigments and medical products. Capacity utilisation for all firms has averaged at 56.2 per cent, with the maximum of 86.8 per cent in inorganic chemicals and the minimum of 37.5 per cent in drug intermediaries. Thus, the various measures of physical performance rank different products differently.

Looking at the labour productivity, one finds that an average employee contributes Rs 5.77 lakh to the turnover for all chemical products. The said productivity is the maximum at Rs 7.68 lakh in organic chemicals and the minimum at Rs 1.17 lakh in medical products. The corresponding figures for workers' productivity are Rs 9.14 lakh (all products), Rs 15.22 lakh (inorganic chemicals), and Rs 1.72 lakh (medical products), and for skilled workers' productivity are Rs 32.57 lakh (all products), Rs 67.35 lakh (drugs) and Rs 11.47 lakh (medical products), respectively. Thus, in terms of labour productivity, medical products is the least attractive goods to produce. The findings on capital productivity suggest that a rupee of investment in total capital has produced Rs 3.2 worth of sales for an average product, with the maximum of Rs 4.2 in dyes/ pigments intermediates and the minimum of Rs 1.3 in medical products. The fixed capital, and plant and machinery form about one-half and one-third of total capital, respectively and accordingly their productivities are about twice and thrice of that of the total capital. Again, while there is no uniformity with regard to the maximum capital productivity across products, medical products happens to have the least capital productivity on all the three measures.

Two new measures of economic performance have been used in this study. These are value added fraction and contribution to subsidy ratio. The former (VA) is defined as the ratio of sales revenue (S) minus value of raw materials consumed (RM) divided by the value of raw materials consumed: $VA = (S - RM)/RM$. The latter is computed as the ratio of the firms' contribution to the exchequer (by way of excise, sales tax, octroi and corporate tax) to the amount of subsidy (including sales tax incentives) received by it during its existence. An analysis of the findings reveal that the value added for all products stood at 38.8 per cent, with the maximum of 67.8 per cent in medical products and the minimum of 32.7 per cent in dyes/pigments intermediates. It is interesting to note that while medical products have the least factor productivities, it has the most value added fraction. Since value addition is shared by labour and capital, in spite of the low factor productivities, firms would be tempted to go for medical products. The last measure, viz, contribution to subsidy ratio stands at 28.4 for all firms, with the maximum of 85.7 for inorganic chemicals and minimum of 0.1 in medical products. Thus, from the government revenue mobilisation point of view, inorganic chemicals and resins manufacturing units are the ones to encourage.

TABLE 2A: INDUSTRY STRUCTURE – II

(Mean values)

Product Group	Age (Yrs)	Number of Promoters	Promoters Time Spent/Month (Days)	Water Needed Per Day (Cu m)	Power Connected (KW)	Power Self-Generated Propn (Per Cent)	Annual Insurance Premium (Rs '000)
Dyes	8.4	3.4	26.6	10.2	60.6	2	7.8
Pigments	11.8	3.9	28.3	21	42.5	23.8	6.2
Dyes/pigment intermediates	8.1	4.9	26.3	15.1	103.7	13.9	27.2
Sub-total – I	8.8	4.1	26.7	14	75 4	10.5	15.5
Min	1	1	4	0.1	1.5	0	0
Max	30	20	30	80	375	267	150
Inorganic chemicals	10.4	3.8	26.6	25.7	97 5	8.5	10.4
Organic chemicals	10.3	3.5	24.7	16.4	78.2	9.5	28.1
Drugs	8	5.4	24.6	24.3	131.9	30.7	31 3
Drug intermediates	10.5	3.6	26.5	12.4	52	2 6	9
Medical products	24.2	4	27	5	46	25.1	33 3
Solvents and plasticisers	6.1	3	25.3	5.8	47.9	18 8	14.5
Resins and allied	10.4	3	21.9	19.3	108.8	0.5	26 7
Others	9.4	2.9	23.6	6.9	45.9	20.7	24 3
Sub-total – II	10.3	3.5	24.9	16 5	80 5	11.6	21
Min	1	1	1	0.1	1	0	0
Max	59	11	30	300	1200	125	162
All	9.6	3.8	25.9	15.7	73 1	11.1	19.2

TABLE 2B. INDUSTRY STRUCTURE – II

(Mean values)

Product Group	Annual Turnover	Total Capital Invested	Fixed Capital	Plant and Machinery Investment	Employees	Workers	Skilled Workers
	(Rs Lakhs)						(Numbers)
Dyes	56.9	21.6	11.4	7.7	13.6	10.4	2.9
Pigments	65.6	29.1	13.9	9.1	14.7	10	1.6
Dyes/Pigment intermediates	154.3	51.8	25.7	19.1	32.2	24.5	6.3
Sub-total – I	97.3	35.3	17.7	12.5	21.4	16.2	4.1
Min	0.5	0.6	0.1	0	1	1	0
Max	672	181	83	54	107	95	31
Inorganic chemicals	122.7	36.5	18.5	13.8	18.9	15.4	3.6
Organic chemicals	190	48.2	31.3	21.7	26.4	20	5.3
Drugs	356.7	79.7	29	18.3	45.3	31.5	9.3
Drug intermediates	59.4	26.9	18.6	13.3	13.4	9.4	2
Medical products	97.5	49.4	23.7	12.6	51.4	39	9.2
Solvents and plasticisers	77	27.6	12.8	9.5	11.2	8.3	2.4
Resins and allied	154.4	58.7	23.1	17.4	21.9	11.6	3.5
Others	89.2	43.5	20.1	14.7	28.9	22.1	6.9
Sub-total – II	140.5	45.1	22.6	16	24.3	17.7	4.7
Min	0.8	2.1	0.4	0.3	2	1	0
Max	1720	406	181	149	204	157	41
All	120.9	40.5	20:3	14.4	23	17	5.8

Thus, as usual, different performance measures do not yield consistent results. Nevertheless, they generally suggest above average performance for firms producing resins, dyes/pigments intermediates, organic and inorganic chemicals, and below average performance for those engaged in manufacturing pigments and medical products.

VI
Analysis and Implications

There is a nexus between structure, conduct and performance. While the traditional theory argues for the uni-directional relationship, in which, structure affects conduct and conduct influences performance, the modern theory suggests the interdependence of these three aspects [6]. To assess these relationships, we have analysed the data through cross-variable tabulation, which are presented in Table 5. In this table, rows contain performance/conduct variables and the columns the significant structural variables. The entries in the table give the values of the structural variable when the performance variable takes the maximum and minimum values. For example, turnover was maximum at the firm's age of 28.9 years and minimum at the age of 7.9 years. Two of the six structural variables in the table are quantitative. It is useful to note their minimum and maximum values in the sample firm. Thus, the minimum age was one year and maximum age was 59 years. The said values for the promoters' time spent per month were one day and 30 days, respectively.

The findings in Table 5 do reveal the interdependence between performance/conduct and structure. However, there appears no definite relationship between most of them. The striking findings may be summarised as follows:

(a) Among various products, drug attained the maximum turnover, medical products the maximum value addition fraction, and inorganic chemicals the maximum capacity utilisation. Organic chemicals and dye/pigments intermediates, in general, had the most labour and capital productivities. Capital intensity was, in general, the least in medical products.

(b) The middle aged firms (around 25-29 years) were ideal to maximise turnover, value addition fraction, capacity utilisation and capital productivity, and also to minimise the capital-labour ratio. In contrast, relatively young firms (around three years age), in general, had attained maximum values for labour productivity.

(c) Relationship between performance and promoters' time appears quite dubious. While capacity utilisation and two of the three measures of labour productivity are maximum, the value addition fraction is minimum, if the time spent is maximum at 30 days/month. Capital productivity is the most if the time spent is 11-12 days/month,

TABLE 3: FACTOR PROPORTIONS (TECHNOLOGY)

(Mean values)

Product Group	FC/TC	PM/FC	TC/E	TC/W	TC/SW	FC/E	FC/W	FC/SW	PM/E	PM/W	PM/SW
	(Per Cent)		(Rs '000)								
Dyes	61	64	198	242	730	123	145	411	75	91	253
Pigments	54	65	190	252	696	105	143	318	65	90	203
Dyes/pigment intermediates	55	73	201	298	964	105	149	532	75	107	387
Sub-total – I	58	67	198	267	851	113	147	468	74	98	321
Min	12	29	17	17	57	7	7	7	7	7	7
Max	100	100	736	1882	3720	463	615	2420	283	421	1700
Inorganic chemicals	57	62	182	315	800	107	185	440	75	147	313
Organic chemicals	63	66	266	415	1300	168	263	817	115	183	544
Drugs	51	67	196	286	1587	96	146	620	59	88	375
Drug intermediates	70	71	241	327	1326	171	234	1092	128	174	829
Medical products	58	76	108	169	1023	66	105	608	44	67	359
Solvents and plasticisers	54	73	261	357	1551	141	191	563	98	134	418
Resins and allied	43	65	260	481	1825	115	190	623	79	130	395
Others	55	63	202	298	1142	105	152	551	65	95	366
Sub-total – II	56	67	223	355	1289	127	196	655	87	139	447
Min	6	20	27	27	189	8	8	35	3	3	27
Max	100	100	911	3400	9708	620	2000	3717	583	2000	3500
All	57	67	212	314	1099	120	173	574	81	120	393

Notes: TC = total capital; FC= fixed capital; PM = plant and machinery; E = employees; W = workers, and SW = skilled workers.

TABLE 4: INDUSTRY PERFORMANCE

(Mean values)

	Annual Growth Rate in TO	TC	FC	PM	Capacity Utilisation	TO/E	TO/W	TO/SW	TO/TC	TO/FC	TO/PM	Value Added	Contribution Subsidy
	(Per Cent)					(Rs '000)			(Ratios)			(Per Cent)	(Ratios)
Dyes	35.9	5.4	3	4.3	53.9	439	549	1908	2.9	5.7	8.5	34	2.8
Pigments	31.1	3.2	1.3	1.5	61.5	463	612	1888	2.7	5.7	9.6	46.1	16.4
Dyes/Pigment intermediates	67.3	6.8	4.7	4.5	52.8	723	1080	3331	4.2	6 8	9.5	32.7	19.9
Sub-total I	47.1	5.6	3.4	3.9	54.7	554	770	1945	3.4	6.1	8.9	34.7	8.5
Mini	-54	-14	-15	-20	1.7	27	27	50	0.1	0.1	0.1	5.6	0
Max	867	42	38	38	299	8750	12069	29167	50	25	45	156	176
Inorganic chemicals	46.1	7.5	6.1	6.7	86.8	627	1522	2974	3 2	7	12.2	48.9	85.7
Organic chemicals	48.6	7.7	6.9	8	49.8	768	1090	4172	3.9	6.7	9.6	45.1	34.5
Drugs	19.1	8.7	6.7	3.8	46.5	557	784	6735	2.9	13.3	16.4	33	20.8
Drug intermediates	33.7	7 9	5.9	6.8	37.5	490	649	2435	2	3.7	6.7	32.8	38.9
Medical products	24.3	3.8	3.7	3.6	80.1	117	172	1147	1.3	2.6	4.4	67.8	0.1
Solvents and plasticizers	24.3	7.1	6.3	6.8	42.7	666	933	4120	2.7	7.3	9.6	36.7	4.2
Resins and allied	43.1	15.8	10.5	3.3	38.1	728	1338	5517	3.4	12.3	19.4	39.7	85.1
Others	66.1	6.3	5.3	9.8	67.3	316	485	1807	1.9	6.1	8.2	33.9	7.6
Sub-total II	41.9	8.6	6.8	6.5	61.3	593	1031	3712	2.9	7.6	11.4	41.9	45.6
Mini	-41	-1.2	-24	0	1.7	27	27	200	0.2	0.3	0.4	9.9	0
Max	413	157	147	50	599	6800	27200	27200	25	80	80	170	596
All	46.6	7.2	5.2	5.3	56.2	577	914	3257	3.2	6.9	10.3	38.8	28.4

Note: TO = turnover (annual), TC = total capital, FC = fixed capital, PM = plant and machinery, E = employees, W = workers, SW = skilled workers.

TABLE 5 : PERFORMANCE/CONDUCT BY STRUCTURAL VARIABLES

Performance/ Conduct Measures	Product Max	Product Min	Age Max	Age Min	Promoters' Time Max	Promoters' Time Min	Org Form Max	Org Form Min	Tech Source Max	Tech Source Min	Location Max	Location Min
	(Name)		(Years)		(Days)		(Type)		(Source)		(District)	
Turnover	DRU	DYE	28.9	7.9	3.4	19.1	Pvt	Prop	NA	NA	Baroda	Kheda
Value Added	MED	DPI	29.9	7.9	19.3	30	Part	Prop	NA	NA	Mehsana	Baroda
Capacity Utilisation	INO	DI	25 1	3.1	30	11.4	Part	Pvt	NA	NA	Kheda	Bharuch
TO/TC	DPI	MED	28.9	12.7	11.5	19.1	Pvt	Prop	Hir	Bot	Ahm	Other
TO/FC	DRU	MED	28.9	3.1	11.5	19.1	Part	Prop	Dev	Bot	Baroda	Bharuch
TO/PM	RES	MED	28.9	3.1	11.5	19.1	Part	Prop	Sef	Bot	Baroda	Bharuch
TO/E	ORG	MED	3 1	12.7	30	19.1	Pvt	Prop	Hir	Bot	Ahm	Other
TO/W	INO	MED	3.1	12.7	30	19.1	Pvt	Prop	Dev	Bot	Baroda	Other
TO/SW	DRU	MED	17.8	7.9	2.8	18.9	Pvt	Prop	Sef	Oth	Ahd	Other
TC/E	ORG	MED	3.1	28.9	3.2	11.4	Pvt	Part	Dev	Bot	Mehsana	Other
TC/W	RES	MED	3.1	28.9	3.2	19.1	Pvt	Part	Dev	Bot	Baroda	Other
TC/SW	RES	PIG	17.8	8	11.4	18.9	Pvt	Prop	Sef	Oth	Kheda	Other
FC/E	DI	MED	3.1	28.9	3.2	11.4	Prop	Part	Hir	Bot	Mehsana	Ahm
FC/W	ORG	MED	3.1	28.9	3.2	11.4	Pvt	Part	Dev	Bot	Mehsana	Other
FC/SW	DI	PIG	3	29.2	30	18.9	Pvt	Prop	Dev	Oth	Mehsana	Other
PM/E	DI	MED	3.1	28.9	3.2	11.4	Pvt	Part	Dev	Bot	Mehsana	Other
PM/W	ORG	MED	3.1	28.9	3.2	11.4	Pvt	Prop	Dev	Bot	Baroda	Other
PM/SW	DI	PIG	3	29.2	2.6	18.9	Pvt	Prop	Dev	Oth	Kheda	Other

Notes. DPI = dye/pigments intermediates, DRU = drugs, MED = medical products, DYE = dyes, INO = inorganic chemicals, DI = drug intermediates, RES = resins, ORG = organic chemicals, PIG = pigments; Pvt = private, Prop = proprietorship, Part = partnership, Hir = hiring experienced persons, Dev = developed in-house, Sef = self-experience, Bot = bought indigenously, Oth = taken from other plants, NA = not available, Ahm = Ahmedabad, Other = Other districts.

and the least if it is 19 days. Both the turnover as well as the capital intensity are maximum if the time spent is around three days/month.

(d) Partnership form of organisation, in general, has performed better than others in terms of value addition, capacity utilisation, capital productivity and low capital intensity. In contrast, the private limited firms have outperformed others with regard to turnover and labour productivity. Proprietorship firms, in general, performed poorly on most of the fronts.

(e) While technology sourced through hired persons yielded maximum total capital as well as total employee productivity, that sourced through in-house development ensured maximum fixed capital and workers productivity, and that sourced through self-experience gave maximum productivities for plant and machinery and skilled workers. The capital intensity was consistently the lowest when the technology was sourced either through buying indigenously or taken from other plants.

(f) Firms located in Baroda and Ahmedabad districts attained the maximum capital and labour productivities, those in Baroda the maximum turnover, and those located in Kheda, the maximum capacity utilisation. The capital intensity was generally low in firms located in "other" districts, and high in Mehsana located units.

From the above findings, no clear pattern emerges. Nevertheless, the following generalisations could be suggested:

- If physical performance is the yardstick, then go for drugs, medical products and inorganic chemicals production, middle aged, partnership and Baroda-Mehsana location.
- If labour productivity is to be maximised, then produce organic chemicals, inorganic chemicals or drugs; the most suitable organisation would have about three years age, a private limited form, located in Ahmedabad/Baroda districts, and the promoters will be spending all their time in the works.
- If capital productivity is the criterion for success, then produce drug/pigment intermediates, drugs or resins, have around 30 years aged firm, partnership form, promoters' spending about one-third of their time, and located in Baroda/ Ahmedabad districts.
- If labour intensity is to be maximised, then produce medical products or pigments, go for about 30 years age, proprietorship/ partnership form, promoters' spending about one-half of their time, sourcing technology through buying indigenously, and locate in "other" districts.
- If government revenue maximisation is the criterion, then go for inorganic chemicals, and resins and allied products.

VII
Conclusion

The paper has presented the first-hand information on the structure, conduct and performance, and analysed the nexus among them for the small-scale chemical industry in Gujarat. The findings are subject to the sample but since the sample is more or less unbiased, we expect them to be generally valid for the industry. No causation model was developed and thus we offer no clues to one-way or the two-way relationship among structure, conduct and performance. The paper has examined the association among their various measures, and has thrown some light on their patterns. We hope the study would be useful to the entrepreneurs, financial institutions, policy-makers and researchers in the field.

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Lost Opportunity

T V Sathyamurthy

Crisis and Change in Contemporary India edited by Upendra Baxi and Bhikhu Parekh; Sage Publications, New Delhi, 1994; p 453, Rs 250.

THIS book is a 'shraddhanjali' in honour of a philosopher and teacher at the Maharajah Sayaji Rao University Vadodara. During the heady decade or so immediately following independence, Raojibhai Patel (affectionately known to his 'chelas' as 'Mota'), now in his 80s, taught mathematics. But as a Marxist thinker and a quondam Royist Radical Democratic Party activist, his chief passions lay in philosophy, social theory and Indian history and politics (p 432).

Patel played a dynamic role in providing a haven for enthusiastic and intellectually driven students (and young lecturers) who were frustrated by the essentially bureaucratic structure of the university and whose development was stultified by the institutional inertia engendered in its narrow-minded and anti-intellectual ethos. His relationship with the young minds that gravitated towards him was rich, many-sided and multi-layered.

Patel was deeply imbued with Marxist thought in general and Marxist method in particular and has remained a critical defender of Marx's basic ideas even after the collapse of communism. He resisted Royism when M N Roy's followers abruptly abandoned Marxism and supported America's imperialist policy towards Indo-China. More recently, Patel has not been tempted by modish intellectual styles, fashions and credentials paraded by time-serving intellectuals who now disport themselves under the banner of 'ex-Marxist' or 'erstwhile Marxists'.

It would appear that Patel played the role of a local savant whose influence on the organisation of Baroda University teachers (of which he was the founder) was as considerable as his impact on enthusiastic young teachers on a personal and moral level. It is entirely in keeping with the Indian intellectual milieu that a volume of "essays by diverse hands" should be brought together as a tribute and as a mark of appreciation of the signal contribution made by such a person to the formation and nurturing of two generations of socially and politically aware and clear thinking intellectuals.

The book consists of 17 substantive essays (not including a summary introduction by one of the editors less close to Patel than the other who has written a brief appreciation of him in the final chapter), not all of which have been written by authors with an intimate knowledge of or direct familiarity with Raojibhai Patel.

Of particular interest to readers must be the essays of those who have known Patel well. They include, among others, Upendra Baxi, Rajni Kothari, Ashis Nandy, Thomas Pantham, Bhikhu Parekh and Dhirubhai Sheth. The essays contained in the selection cover, unevenly, a wide variety of topics ranging from ideology, politics and sociology to psychology, culture and ecology. The editors would appear to have made no special effort, apart from a cursory summary of the essays seriatim, to provide the work as a whole with the lineaments of systematic coherence.

A major shortcoming of the book, therefore, is its singular lack of character. Only a few of the essays in it bear the mark of distinction relevant to the commemorative remit of the volume. A span of 40+ years in the life of a leading (though not widely published) intellectual is a convenient interval in which to assess the changing relationship between the challenge posed by development (including questions relating to justice, human rights, etc, in a rapidly transforming system of international relations) on the one hand, and on the other the intellectual apparatus that a committed thinker has to bring into shape in order to address the task of spreading an understanding of the links between global, national and local problems.

Raojibhai Patel has influenced the understanding of three generations of peers and students who have come into contact with him. His life has thus provided an excellent example for distinguishing between formulaistic Marxism and study based on Marxism as the provider of a critical method of approach. At the same time, great changes – environmental, political, economic, social and international – call for adaptations of our world-view in order better to comprehend reality.

A 'shraddhanjali' undertaken in a spirit of exploration of these connections and attempting to draw out useful threads linking the past with the present and the future would have been an appropriate tribute. In the work as it stands, there is an unfortunate distancing on the part of the editors and a number of contributors from the task of methodological and theoretical clarification of Raojibhai Patel's worldview and of showing the processes of adaptation to changing realities of an intellectually formidable analytic scheme to which he subscribed. In this sense, the editors have missed a very good opportunity because of the failure of the contributors to empathise with the person who has inspired this tribute. In registering a general feeling of dissatisfaction, I have no wish to underestimate the individual worth of a few of the essays.

Chapters 2-7 deal with the legacies of Nehru, Gandhi and Ambedkar separately rather than in a comparative manner. Parekh's discussion of Nehru's thought in the context of "the crisis of modernisation" adds little to our knowledge and understanding of an over-worked subject, traversing thoroughly familiar ground in an unattractively chatty style. The essay ends with a conflation between Nehru's ideas on modernisation and the current craze, the advocates of which see Nehru's legacy as a hindrance rather than as a precedent. Gandhi attracts a slightly better quality of exegetical review than does Nehru. Brown broadens the canvas of Gandhi's influence to cover the world outside India in the contemporary era. She makes the point that whilst Gandhi's experiments and ideas cannot be easily borrowed (i e, transplanted, I suppose) "across the barriers of time and culture", his radical vision and his pragmatic method are as germane to our times as they were in South Africa and in India in the past.

Thomas Pantham does provide a view of Nehru and Gandhi together in the context of modernity. Unfortunately, his analytical effort is vitiated by too deep an immersion in a borrowed frame ('Modernity of Tradition' thesis, or somewhat ambiguously in our age of 'motor cars', shortened as 'MOT', a test which the essay does not quite pass!). The three ingredients of the essay – Gandhi's resuscitation of India's cultural tradition, sauteed with "some of the values and institutions of modern politics", which is seen as being in creative tension with Nehru's vision of the future, and the problematic antithesis between "scientific rationalism" on the one hand, and the moral intuitiveness of Gandhi on the other – have not been worked out satisfactorily, let alone brought together in an illuminating manner. A big price to pay for relying on 'authorities' rather than on one's own thought processes in order to make connections!

Of the first tranche of six essays, Baxi's discussion of Ambedkar is the most interesting. Starting with a remark about the marginalisation of Ambedkar by "the communities of knowledge and the communities of power in India", Baxi has identified seven different aspects of Ambedkar's role as an authentic dalit, an exemplar of scholarship, an activist journalist, a pre-Gandhian activist, a truce-maker with Gandhi (Poona Pact), a constitutionalist, and as one who ultimately renounced Hinduism and embraced Buddhism. This is followed by a discussion of the bitter conflict between Ambedkar and Gandhi on the issue of separate electorates, identification of 10 theoretical/ideological questions arising out of the political context in which Ambedkar launched his struggle for the emancipation of dalits, and Ambedkar's documentation of the history of oppression of Ati-sudras in Indian society. The concluding section raises important questions of theory and is especially noteworthy for Baxi's interpretation of the limitations of the liberal framework and the possible avenues to transcend them in order to create a "wide-ranging programme of equality and equity measures aimed at the fulfilment of a wide

variety of material and non-material needs" (pp 146-47).

The remaining 12 essays are not connected by any discernible thread. Some of these are good, some others not so good, yet others indifferent. Ignoring the continuities between the two periods, Kothari draws a distinction between pre-1967 and post-1967 India. In the changing context of politics, the state has, in his view, undergone a process of partial de-legitimisation and politics has degenerated in quality as it has shown itself incapable of coping with rapid social change. The need of the 1990s is to tap into the potential "for generating a political process that spans both the local and the national (and the international)" (p 164). Kothari is disappointed with the lack of "response from above" (p 167) of the Indian elite (surprise!, surprise!!).

Rouner provides a typically American (or should we now recharacterise it as Blairist?) "stakeholders' view of democracy" (the rationale for the choice of some of the contributors to this volume is intriguing to say the least!). This is followed by Sheth's essay on "the great language debate" involving the politics of metropolitan versus vernacular India. He cogently argues that in the wake of the politicisation of the language controversy in India, the continued predominance of English has contributed "to creating a big divide between metropolitan India and mofussil India, between the centre and the regions". The way to weaken the prevailing dual system of education will consist of re-orientating the role of English – i e, ensuring its survival on functional terms and ending its role as an instrument of elite domination.

North American political science (especially in relation to the third world) has, in recent years, changed its prevailing shibboleth from 'law and order' during the 1960s (which itself was introduced as a more desirable alternative to 'democratic norms') to 'governance'. Mitra's essay represents a curious amalgam between this received paradigm and a concern for democracy. He explores the link between democracy and the crisis of governability instead of pursuing the much more interesting and potentially useful theme of governance and the crisis of democracy. Even the choice of the words 'crowds' (to refer to the mass of the people) and 'power' as a concept antithetical to it betrays a deep distrust on the author's part of the contribution made by the numerous initiatives that different segments of the population have adopted in order to minimise the systematic abuse of power by those in positions of authority in the state structures and to innovate forms of co-operation and methods of reaching democratic consensus in order to improve the style and content of politics.

To a certain degree, albeit from a psychological rather than a political angle, this area of concern is addressed in Desai's essay despite his over-emphasis on leaders and under-emphasis on ordinary individuals. Nandy makes a more radical statement, more appreciative of the enormous gulf in status and power between the guardians of the tools of modern applied sociology and those who subscribe to alternative or rebel paradigms. He makes the point that good psychology may be useful "not as an instrument, but as an intervention in contemporary social consciousness".

Sandwiched between the 11 chapters on political, sociological, ideological and psychological questions and the last four substantive chapters, is a thematic and methodological loner – happily, a cogently and more or less fully laid out empirical picture of "the health scenario in India" by Mehta. She argues in favour of an integrated package of health including family planning and development and points to the ineffectiveness of the fragmented approach to the problem of health care.

Chapters 14-18 deal with religion, communalism, culture and environment. Kaviraj, who has written one of the four really good essays in this volume, has drawn attention to the unreplicability of modernity in India along a trajectory familiar in western historical experience. The role played by religion in the unravelling of political processes varies from epoch to epoch, from civilisation to civilisation. Cultural factors play a crucial role in the elaboration of this extremely complex relationship. The task of social science is to investigate, not extrapolate.

Bhargava's essay explores the nature of religious and secular identities. He draws attention to four different forms of identities. Of these, the identities of high ideals, of multiple values, and of "a culture of plurality infused by a sense of high ideal" constitute the basis of his discussion of religious identities and modern, secular identities. Bhargava seems to suggest a way out of the current impasse in Indian politics caused by the rising power and electoral popularity of the BJP, by means of attempts to understand how religion, modernity, tradition and secularism operate in the different cultures "of unfettered desire, of multiple values, of ultimate ideas that bypasses (*sic*) multiple values, and in the other mature culture that passes through these multiple values" (p 346).

Mahajan's pompous essay on cultural embodiment and histories comes as an anti-climax after the substantial and sophisticated contributions of Kaviraj and Bhargava. She seems to be adrift in a sea of confusion between the adjustments that it is necessary for modern political structures to make in a social setting in which religion continues to play a vital role in quotidian life and the nexus between the individual and the community following Heidegger's example. Canning and name-dropping apart, Mahajan's essay stands as a singularly unilluminating contribution in this volume.

Patel's sociological explanation of communal riots in contemporary India is an empirical exercise of considerable worth, showing the qualitative and quantitative changes in the phenomenon of communal violence in India since the 1940s. An outline of the different explanations for the occurrence of riots is followed by a comparative treatment of the 1969, 1981 and 1982 Vadodara riots. This is richly interspersed with clear accounts of the overlapping role of different actors (catalysts and promoters alike) – "politicians, police and bootleggers" – and a clear delineation of the forces underlying the communal violence that "are deeply embedded in the social structure of the city". He discusses these interrelationships using the concepts of 'social structure', 'social processes' and 'social ecology'. In the final section he makes a serious and largely successful attempt to place the Vadodara riots in a wider and largely comparative perspective of communal violence in north India as a whole. Rather than assuming that such conflicts occur between mutually antagonistic but internally homogeneous communities, analysts should attempt to explain the social processes by which internally heterogeneous social communities experience social strains which translate themselves into violent conflicts. A most satisfying essay indeed.

Pravin Sheth's essay on the ecopolitics of the Sardar Sarovar project demonstrates the creative character of the conflict between the forces of democracy (in the three vital geographical areas covered by the project) on the one hand, and on the other the authorities at the centre and in the states (of Gujarat and Madhya Pradesh) who would have preferred to get on with the project with the aid of the World Bank untrammelled by opposition of any kind. Sheth believes that the Narmada Project may turn out to be the best of its kind in India.

> The democratic process has enabled grass roots activists to insert the maximum corrective inputs in the 'revised' project plan through commendable intellectual home work and persuasive perseverance and national-international networking (p 425).

In the light of continued agitation and of the devious and bullying tactics adopted by the Gujarat government (at the present time as under the Chimanbhai Patel regime), Sheth's assessment may sound prematurely conclusive if not over-optimistic. But there is no doubt that the politics of resistance surrounding the Narmada dam represents an important chapter in the contemporary story of India's experiment with democracy.

Despite the lack of a unifying thread that would have constituted an appropriate homage to a savant who exercised a defining role in the shaping of at least two generations of intellectuals at the M S University, this book stands redeemed by its best essays (those by Upendra Baxi, Rajeev Bhargava, Sudipto Kaviraj and Pravin Patel).

International Trade and Long-Term Economic Growth

A Few Issues of Growth Strategy for India

Murali Patibandla

For developing economies, technological change and micro-level efficiency is as important as capital accumulation as a source of long-term economic growth. International trade is an important source of incentives in generating both intentional and by-product technological change by increasing aggregate economic activity (market size) and competitive conditions. In the present context, selective policy intervention on the production side may provide a cutting edge in realising dynamic gains through trade.

I
Introduction

THE analysis of long-term economic growth has emerged once again as central topic of mainstream economics as developed countries themselves have had to worry about stagnant or slow growth in real incomes during the last 20 years. While in developing economies the main emphasis has been on capital accumulation as the major source of growth, for developed economies it is on technological change. In the context of continuous and rapid technological changes in the international markets, how accumulated capital is utilised to generate technological change and higher labour productivity is as important as capital accumulation in developing economies. The endogenous growth theory pioneered by Romer (1986) and Lucas (1988) sheds some light on how technological change is endogenously generated by micro- and macro-level incentives emanating from market conditions and the policy and institutional regimes.

The classical growth model of Solow (1956) is based on the assumptions that technological change is exogenous and it is a public good. The assumptions imply all countries (both developed and developing) should be on a similar technology frontier because, under these assumptions, diffusion of technological change is instantaneous. Obviously, both the assumptions are only partly right because most technological change is endogenous caused by deliberate efforts of economic agents and it is not a public good. Some technological discoveries might be exogenous caused by random factors, but the aggregate rate of discoveries are endogenous caused by deliberate efforts and the level of economic activity. The non-public good nature of discovery is one of the major incentives for deliberate efforts in modern economies and a source of rents to innovators. International trade is one of the major sources of increasing aggregate economic activity and also incentives for deliberate technological efforts.

Empirical studies of cross-country comparisons provide certain stylised facts which show a positive correlation between long-term economic growth and variables like trade openness of an economy, government investment expenditure (as against consumption expenditure), and investment in R and D, primary and higher education.[1] Trade openness of economies has been observed to be a major source of growth. In the decade of 1980-90, while world GDP grew at a rate of 3.2 per cent, world exports grew at 4.3 per cent. For China and India together for this period, GDP grew at 7.6 per cent and exports at 9.8 per cent [Cooper 1995].[2]

In the static framework of the classical trade theory, free international trade does not increase endowment of capital (capital accumulation). Under the assumption of perfectly competitive markets, free trade improves the static allocative efficiency of resources across trading nations, which in turn increases real incomes. In the trade theory of imperfect competition, trade increases production runs and reduces average costs and prices under the presence of economies of scale in production of manufactured goods which, in turn, increases real incomes across trading nations [Patibandla 1994]. In a dynamic framework, increase in incomes leads to increase in savings and investment (capital accumulation). International trade may also generate positive externalities, learning by doing economies and provide incentives for technological change through increased competitive conditions and extension of market size (division of labour). For developing countries, economic growth requires not only factor accumulation but also narrowing technology gap with developed economies. They need to have a certain minimum level of initial industrial skill and agricultural endowments in order to realise dynamic gains of international trade. Policy intervention could be towards generating these minimum necessary endowments. In the east Asian countries, selective policy intervention, apart from creating the minimum initial conditions, facilitated generation of dynamic gains and consequently high growth in a relatively very short period of time.

The blanket import substitution policies pursued by India and Latin America in the past, where the policy regime discouraged both exports and imports, were based on the assumption that international trade with developed countries leads to immiserising growth through worsening of terms of trade, based on the Prebisch (1950) and Singer (1950) hypothesis. This paper argues that several elements of the Prebisch and Singer hypothesis, which has been questioned by a dominant part of development economics literature by citing the east Asian experience [World Bank 1990], are still valid for developing economies. However, the solution lies in not blocking trade but in careful selective policy intervention on the domestic production side that provides appropriate incentives for technological change. One of the major differences between the South Korean and the Indian policy regimes is that while India followed blanket import substitution with a highly over-valued exchange rate, South Korea followed selective import substitution with competitive exchange rates (since 1964). This facilitated exploiting the initial static comparative advantage in labour-intensive industries while the selective policy intervention created dynamic comparative advantage in capital-intensive high technology industries [Westphal 1990]. This paper argues that the policy in India should encourage exports of industries that have

static comparative advantage while simultaneously providing appropriate incentives for technological change. The scope of this paper is rather narrow, as it deals with only certain aspects of the link between trade and growth.

II
Validity of the Prebisch and Singer Hypothesis

The main premises of the Prebisch and Singer hypothesis were: (1) a secular decline in the terms of trade for exports of primary goods of developing economies would result in an ever-growing widening of the gap between rich and poor countries in the absence of industrialisation in the poor countries, and (2) in order to industrialise the poor countries should protect their infant industries from imports [Edwards 1993].

The essential message of the hypothesis is still valid to developing countries. But how it is absorbed and implemented could be the explaining factor between the success stories of the east Asian countries and the relative failure of India and Latin America. This is illustrated by a comparative analysis of South Korea and India. South Korea and India followed broadly similar industrialisation strategy [Datta Chaudhuri 1990]. The difference was that while India followed blanket import substitution while keeping the exchange rate highly overvalued, South Korea promoted exports by maintaining a competitive exchange rate regime. This enabled South Korea to exploit static comparative advantage in international trade by exporting labour-intensive goods in the beginning, while the selective policy intervention created dynamic comparative advantage in specific capital-intensive sectors through selective and time-bound import protection, provision of capital at differential interest rates, etc [Westphal 1990; Pack and Westphal 1987]. As the comparative advantage shifted to modern industries, South Korea's terms of trade improved. Increase in labour productivity and volume of trade resulted in increase in real wages. These dynamics of the growth process had a two-way causation between trade and growth. In India's case, the overvalued exchange rate mechanism restricted her from exploiting static comparative advantage in labour intensive goods by making exports in general unprofitable. Secondly, the policy mechanism created inefficiency in the use of capital and other inputs in the capital-intensive sectors that were promoted. Consequently, the policy regime failed to take advantage of static comparative advantage and to create any significant dynamic advantage in the capital-intensive sectors [Patibandla 1993].

III
Sources of Growth and Terms of Trade Effect

As mentioned earlier, the blanket import substitution policies of India and Latin American countries were based on the premise of adverse terms of trade effect of free trade with developed countries. The inimical effect of decline in commodity terms of trade on per capita incomes owing to growth in export sectors depends on the sources of growth. If growth is because of increase in inputs like labour, it will cause a decline in per capita income. But if growth is due to technical progress, decline in commodity terms of trade need not lead to decline in per capita incomes.

The above observation is illustrated through the single factoral terms of trade equation: (Px/Pm)(X/L). Px is the price of exports. Pm is price of imports which is assumed to be constant. X is the output of the exportable commodity. L is the one input used to produce X. (Px/Pm) captures commodity terms of trade and (X/L) refers to labour productivity in producing X. We take the country to be large in the world market for X, so any increase in supply of X leads to decrease in Px. Growth in X can take place because of increase in input of L or due to increase in productivity of L, i e, technical progress. Growth in X leads to decline in Px owing to increase in supply of exports. If growth in X is because of increase in L, (X/L) could remain unchanged but (Px/Pm) decreases worsening per capita incomes in the exporting sector (the extent of this depends on the elasticity of export demand). If growth is arising from technical progress decline in (Px/Pm) can be offset by increase in (X/L). If increase in (X/L) is more dominant than decline in (Px/Pm), it leads to increase in per capita incomes even if the commodity terms of trade worsen. A simple example of this is that both the US and India export agricultural goods. In the US, only 4 per cent of its population shares the income generated in agriculture whereas in India 60 per cent of the population shares the income generated by agriculture. The adverse terms of trade effect on per capita income is more dominant if growth of output is mainly because of increase in labour supply (population).

Standard growth theory shows that capital accumulation leads to increase in labour productivity and wage rate by providing labour to work with capital equipment. If capital accumulation is mechanical, in terms of increasing the number of similar type of machinery, it will be subject to diminishing returns to capital. If capital accumulation is in terms of skills and knowledge acquisition (through learning by doing and investment in education) and embodied technological change, diminishing returns to capital will not take place as shown by the endogenous growth theory. Here, the issue of how accumulated capital is invested and utilised becomes germane. If the accumulated capital is used to bring improved machinery and improved intermediate goods, through investment in knowledge capital, it may lead to increasing returns to capital. Capital accumulation in terms of skill acquisition may be largely related to learning by doing economies (apart from investment in human capital) which, in turn, depends on output growth. For economies with small domestic market for industrial goods, exports function as a source of extension of the market size which facilitates learning by doing and also generation of externalities.

The importance of technological change and its implications on terms of trade and growth in developing countries can be seen also in Krugman (1979) also which applies product life cycle theory to shed light on terms of trade between developed and developing countries. Its essential logic is similar to the main elements of the Prebisch and Singer hypothesis. Technological change is concentrated mostly in the north. The terms of trade tend to be adverse to the south because they pay a form of Schumpeterian profits to the innovators in the north in the form of high product prices, where new innovations first occur. On the product life cycle while the south begins to export the product whose price has fallen, new products will have been developed in the north, which they will sell to the south for prices high enough to cover their wages and to earn some Schumpeterian profits. Hence, an intrinsic aspect of the product life cycle process is that the technology initiating high wage economy reaps high prices for its products relative to technology receiving low wage economies and the profit income is mostly in the north.

Lau's (1996) cross-country study shows that for developed countries, technical progress is the main source of growth. In developing countries despite high rates of growth and rapid capital accumulation in some of them, the rate of technical progress have been found to be statistically insignificant. Given these findings he argues that developing countries should look ahead and begin to plan to devote a greater proportion of their resources to indigenous research and development. This is especially urgent given the long gestation periods for and uncertain returns on such investments in intangible capital.

One of the reasons for lack of innovative R&D in India in the past has been attributed to small size of the domestic market and the policy regime [Lall 1987; Desai 1982]. R&D investment involves fixed and sunk costs. Access to a large market is needed to spread fixed costs and reduce risks. The argument

that small domestic market not only constrains R&D investment but also causes production at sub-optimal scales is still valid for many Indian industries. The policy that targets encouraging of R&D efforts towards generating technological change in India need not encompass all industrial sectors. Given certain country specific advantages, specific local industries might be more successful in generating innovations: for example, software, auto components, and two-wheelers, etc. Industries like auto-components and software have a starting (static) comparative advantage owing to availability of inexpensive skilled labour, which facilitate exports. Exports, in turn, extend the market size and reduce the risk element of R&D investment. Furthermore, the extension of market size through exports should increase the cumulative output of exporting firms. This, in turn, can cause significant learning by doing and reduction in costs in those industries.[3] These advantages arise not only through R&D expenditure but also by deliberate efforts by firms towards improving the production processes. Competitive export markets will put pressure on firms towards undertaking deliberate efforts. Trade openness may also increase the capacity to absorb technologies developed in the advanced nations and to generate innovations locally [Grossman and Helpman 1991; Edwards 1992].

The above observation can be illustrated with the example of the Indian software industry. India has a strong comparative advantage in the software industry due to skill endowments which has caused exports of software to grow from Rs 50 crore in 1985 to Rs 1,535 crores in 1995 with an average annual growth rate double the world average. The generation of wage and especially profit income through exports of this industry depends on at what stage of the product life cycle the domestic industry is in the context of rapid technological changes in the world market. Investment in R&D and generation of innovations facilitate the industry to be on the initial phase of product life cycle by generating successful innovations and increase profit income of the domestic industry. Initial access to growing domestic and export markets reduces risks and enables spreading of fixed costs in R&D investment. This is where policy can provide a cutting edge by giving certain incentives for R&D investment by facilitating effective protection of intellectual property rights, fiscal concessions, investment in infrastructure and education, etc. A similar argument may apply to a few intermediate goods industries like auto-components and two-wheeler industry which have a very strong and growing domestic demand.[4] As mentioned before, investment in knowledge capital in these industries is subject to strong increasing returns to scale and exports magnify these returns by extending the market size which, in turn, may generate cumulative learning economies.

A few of the above observations are tested empirically on the basis of firm-level panel data drawn from the Indian light commercial vehicles industry. The data are drawn for two major corporations: Tata Engineering and Locomotives and Ashok Leyland for the period of 1985-86 to 1994-95. The data are drawn from the Confederation of Indian Industry's (CII) annual publications relating to the 'Top Hundred Companies'. We use a simple theoretical model as the basis for the specification of equations for empirical testing.

IV
The Model

We take domestic oligopoly firms to compete in Cournot quantity space in the home market. On the basis of the assumption of small country in the world market, we take domestic firms to be price-takers in the world market. The domestic market is protected from imports. Both assumptions are highly justified for most of the Indian engineering industries. We take two firms i and j, but results are generalisable for more than two firms.

The profit function of firms is.

$$\Pi_i = P(x_i + x_j)x_i + P_w x_i^* - (1/2)c_i(x_i^*)^2 \quad ...(1)$$

P is the domestic market price, P_w is the world market price, x_i is domestic sales, x_i^* refers to exports and c_i is the parameter of the cost function.

By solving for the profit maximising conditions, we get domestic sales and exports in equilibrium as follows;

$$x_i = \{P_w - P()\}/P'() \quad ...(2)$$

$$x_i^* = (P_w/c_i) - x_i \quad ...(3)$$

From equation (2) we can see that a decrease in c_i leads to increase in exports.

$$c_i = f(R\&D_i, IM_i) \quad ...(4)$$

$f' < 0$;

$R\&D_i$ = Intensity of expenditure on research and development.

IM_i = Intensity of imported intermediates and raw materials in production.

On the basis of equations (2) and (4), we hypothesise that increase in R&D expenditure and imported intermediate goods in production leads to reduction in costs and increase in exports.

V
Empirical Analysis

Measurement of Variables

E/S = exports to sales ratio

R&D = research and development expenditure/value-added

IM = Imported intermediates and raw materials/value-added

Z = an index of relative firm level production efficiency

Firm level efficiency indices are measured on the basis of Farrell's (1957) production frontier approach. Recent development in the efficiency frontiers literature show the derivation of plant-specific time-variant technical efficiency indices by using panel data. The production function defines the maximum possible output a firm can realise for a given level of inputs employed, given the technology level. Farrell's method shows relative technical efficiency as the extent of deviation of output realised by a firm (for a given level of inputs employed) from the best practice in an industry. We adopt the model of Cornwell et al (1990) which allows the rate of productivity to vary over time and firms. The residuals of the estimated (Cobb-Douglas) production function are used in deriving the efficiency indices.[5]

As the variables are mutually inter-dependent and there could be simultaneity in relationships, we estimate the causality in different stages (the correlation coefficient between R&D and export intensity variabless is as high as 0.51 for this industry). There could be a two-way causality between the efficiency variable and export intensity especially if there are economies of scale in production and dynamic external economies in export activity High degree of production efficiency is required to compete in the international markets and exports extend the market size and reduce average costs of production if economies of scale are present and also information and technology externalities that arise through export activity leads to reduction in costs to exporting firms. Since we are making use of panel data and R&D and IM variables could be reliable instrumental variables, the following exercises do provide reliable results. IM variable can be treated as exogenous because increase in the use of imported intermediates could be a result of the trade policy reforms in terms of drastic reduction in import duties on intermediate goods. The decision to invest in R&D by firms might be a result of degree of domestic competition. Increase in domestic competition makes firms undertake cost reducing efforts and investment in R&D and imports of inputs are made towards cost reduction. R&D investment may also be determined by the extent of imports by firms if it is towards adapting imported technology to local conditions. In other words, we can take costs of firms depend on R&D and IM; R&D investment is a function of degree of competition. The competitive dimension operates mostly from the domestic market and also export markets depending on the degree of export orientation of firms [Patibandla 1996a]. Since exports can take zero values and the efficiency is bounded to values between zero to one, ordinary least

The Peerless General Finance & Investment Company Limited

Chairman's Statement

D. N. Ghosh

The following is the Statement made by Mr. D. N. Ghosh, Chairman, The Peerless General Finance & Investment Company Limited, at the Sixty-third Annual General Meeting of the Company, held on November 18, 1996

This year is a watershed year for Peerless. The Hon'ble Supreme Court in its judgement dated 4th January, 1996, ruled that the Reserve Bank of India had the right to decide on the service charge payable by the depositors and advised your company to make suitable representation in this matter before the RBI. The RBI in its latest direction has allowed charging one-time non-refundable service charge of Rs. 80/- per annual deposit of Rs. 500/- or less.

In compliance with the Supreme Court judgement and directives of the Reserve Bank of India, the Company has made fundamental changes in its accounting policies and procedures. Earlier the Company had been utilising a portion of deposits collected in the first year by way of service charges towards cost of collection of deposits and payment of commission to the field agents. This practice has been discontinued following the RBI guidelines. Consequently, adjustments have been made in the current year's accounts in respect of the entries pertaining to service charges made in the accounts for the past years. After taking into account, what has been authorised by the RBI, the quantum of adjustments made is Rs. 771 Crores and accordingly the liability outstanding on deposit account has been reassessed at Rs. 5383 Crores. With the drastic curtailment in the amount of service charges, which can now be taken to the income account, the Company has reported a loss for the first time in its history. Efforts are on to correct the mismatch between income and expenditure and restore the Company back to profitability.
I should clarify, however, that the Company's capability to discharge maturity obligations to the depositors, as and when these become due, remains unimpaired.

The set-back in the current year should not make us lose sight of the core competence which Peerless have developed over the last 65 years in the task of mobilisation of savings and also a credibility established in the large number of depositors by refunding about Rs. 950 Crores to them on maturiy. Its method of collection of savings from small depositors, from weaker and informal sectors of economy and from the rural and semi-urban areas has been unique. The savings could have remained untapped despite the presence of Banks and other Institutions. By unearthing such savings and investing them primarily in public institutions in the manner as required by the RBI, the Company can take legitimate pride that it has been making its own humble contribution to the national cause.

In this task of mobilisation the field force of the Company has been an important link. Their contribution to the growth of the Company has been commendable. However, the recent developments have made it incumbent on the Company to restrict commission to levels which the Company can afford to pay as per the RBI guidelines. We do hope that the field force will understand these compulsions and start the work afresh with renewed vigour.

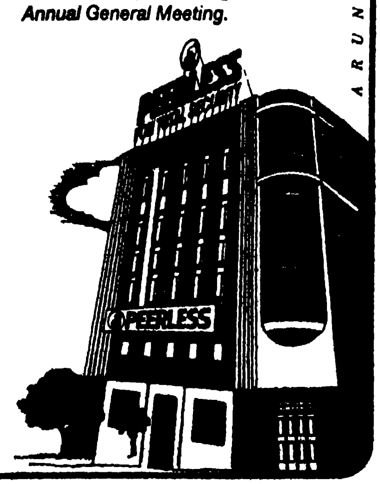
Times are changing. In the face of multi-product availability, the depositors are becoming more demanding. We have to design new savings schemes which can cater to their emerging needs. The Company's commitment to service will remain, as before, but we have to recognise that we have to change our ways of functioning to survive in this highly competitive environment. The cost of mobilisation of deposits have to be contained by rationalising the commission structure and targeting an optimum mix of fresh collection and renewals. The drive for mobilisation of deposits have to be selectively targeted for specific areas. Systems have to be installed for close and continual monitoring for the achievement of these targets. The existing and future assets have to be managed efficiently to increase the yield on average assets. Recovery of non-performing assets has to be given topmost priority. The operations of the subsidiaries and the associate companies have to be rationalised and made profitable. Above all, effective management control and risk management systems commensurate with the size of operations have to be installed.

All these demand very high levels of efficiency at all levels in the Company. The organisation has to be restructured, managerial capabilities at various levels have to be strengthened and adequate attention has to be given for proper training of personnel at key levels and induction of specialised skills. I would like to assure you that your Board is fully alive to the need and urgency of these changes and is committed to initiate and implement these changes as expeditiously as possible.

D. N. GHOSH

Calcutta
November 18, 1996.

Note : *This does not purport to be a record of the proceedings of the Annual General Meeting.*



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squares estimates provide biased results. We use Tobit maximum likelihood method in estimating the following equations.

$$(E/S) = 0.065\ (Z) \qquad ...(5)$$
$$(7.6)^{*}$$
log-likelihood = 36

$$(E/S) = 0.32\ (IM) + 1.57\ (R\&D) \qquad ...(6)$$
$$(2.68^{*}) \qquad (2.65^{*})$$
log-likelihood = 38

$$Z = 6.3\ (IM) + 12\ (R\&D) \qquad ...(7)$$
$$(5.1)^{*} \qquad (2)^{*}$$
log-likelihood = –3.2 N = 18

Figures in the brackets are t values.
* Significant at 0.01 level.

The above results have a reasonably high degree of statistical significance. The signs associated with the estimated coefficients support the main propositions of the model. As it can be seen from equation (7), research and development expenditure intensity explains export intensity positively. In other words, research and development is extremely important towards achieving export success in relatively high technology manufacturing industries.

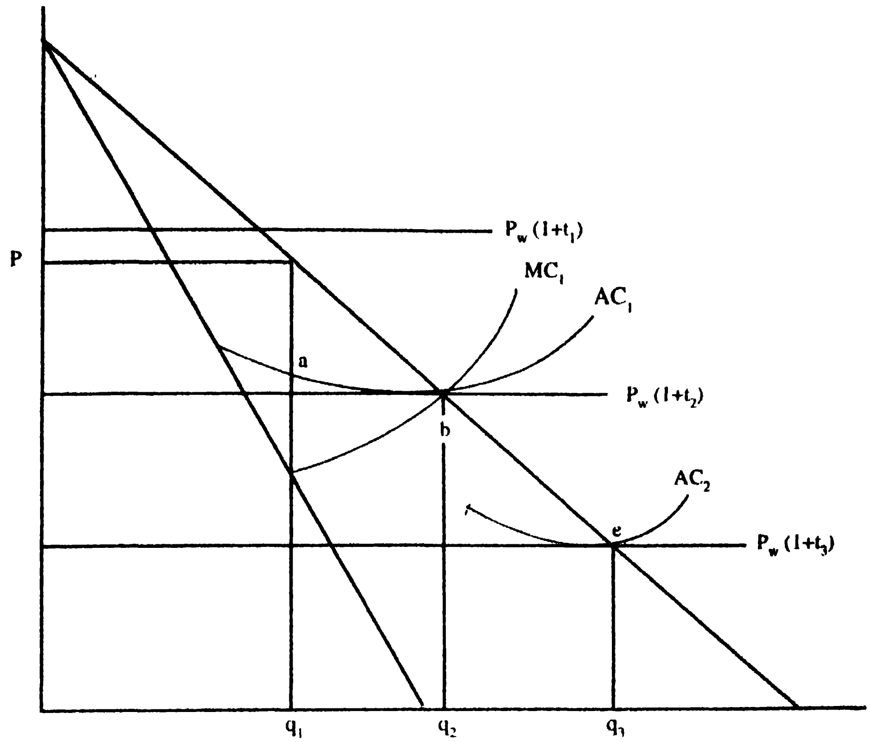
In most Indian firms, R&D expenditure had been and still is marginal. A quick reading of the data of company balance sheets (from the CII's publications) shows that a few of the Indian companies appear to be increasing R&D expenditure in the recent years, which is a healthy trend (for example, Bajaj and TELCO). Most of the R&D activity might be still adaptive (adapting imported technology) rather than innovative. Increase in this activity also leads to learning by doing and by-product technological innovations. But for these learning effects to be dominant, certain conditions have to be met: industry has to grow at a sustained rate, firms have to make deliberate efforts, domestic market has to be competitive and also complementary industries, infrastructure and institutions have to exist.

In a highly protected domestic market, oligopoly firms would tend to restrict production for realising monopoly profits which makes them X-inefficient in production. Import policies can be used to discipline domestic producers to behave competitively and increase production and invest in technological efforts (in the absence of a competitive domestic market mechanism). This point is put forward in the following section.

VI
Import Tariff Policies and Domestic Producer's Response

At present intermediate goods have been subject to lower tariffs at about 30 per cent and consumer goods are given higher protection at 60 per cent (ad valorem). If domestic oligopoly firms producing final goods are provided with imported inputs and technology at lower tariffs, it is not logical to allow them to restrict domestic supply and charge higher prices because of higher import protection.

Figure 1



Textbook theory of tariffs shows that imposition of tariff on imports reduces domestic consumer surplus and increases surplus by increasing domestic production. If the domestic market is characterised by oligopoly or monopoly, reduction in tariffs till a critical level causes increase in domestic production and reduction in domestic price by reducing the market power of domestic producers. This result is applicable to consumer goods industries in India in which the market structure is oligopolistic. Increase in domestic production due to reduction in tariffs increases demand for and production of intermediate goods which, in turn, could generate positive external economies.

The above observation is illustrated by Figure 1. We illustrate this by taking a domestic monopoly producer. But the main results are applicable to oligopoly market structure in which in equilibrium there is a positive deviation between price and marginal cost (*a la* Cournot). In Figure 1, D is the domestic demand curve and MR is the corresponding marginal revenue curve. MC and AC are marginal and average cost curves. t refers to tariff rate on imports, t_1 is the initial tariff rate. With t_1 level of tariff rate on imports domestic producer would do monopoly pricing at P and produce q_1, at sub-optimal capacity by keeping ab level of underutilised capacity. Reduction in tariff rates to a critical level of t_2 increases domestic production from q_1 to q_2, forcing domestic producer to behave like a competitive industry. Production at q_2 causes optimal capacity, i e, production at the lowest point on average cost curve. Any further reduction in tariffs could eliminate the domestic producer. This is subject to the condition that cost curves remain unchanged. The interesting side of this story is that if there is a time sequence to further reduction in tariffs from t_2, it may cause a downward shift in cost curves by making domestic producers to undertake deliberate technological and organisational efforts towards reducing costs [Patibandla 1996b]. This is illustrated as following. At time period 1, when the tariff rate is t_2, the policy-makers announce that at a future time period 2, the tariff rate will be reduced to t_3. The domestic producers will know that if they do not reduce costs to at least AC_2, they will be eliminated by imports. This, in turn, can induce domestic producers to undertake systematic technological and organisational efforts towards reducing their costs of production. The shifts in cost curves is treated as a long-term effect. The reduction in costs and increase in output (to q_3) of goods could generate positive externalities by increasing demand for domestically produced intermediate goods.

An empirical example of the possibility of the above outcome is given in Jacobsson

and Alam (1995) who did a micro-level comparative analysis of set of Indian and South Korean engineering industries. In the case of the hydraulic excavators industry, they observe, "...while in the case of India, the protection from imports seemed indefinite, the Korean government clearly set a limit on the protection" The threat of import competition made the South Korean producers make systematic technological efforts towards reducing costs which made them highly competitive. In the case of the Indian industry, the policy signal of indefinite protection made the producers complacent and inefficient.[6]

VII
Implications of Export Policies

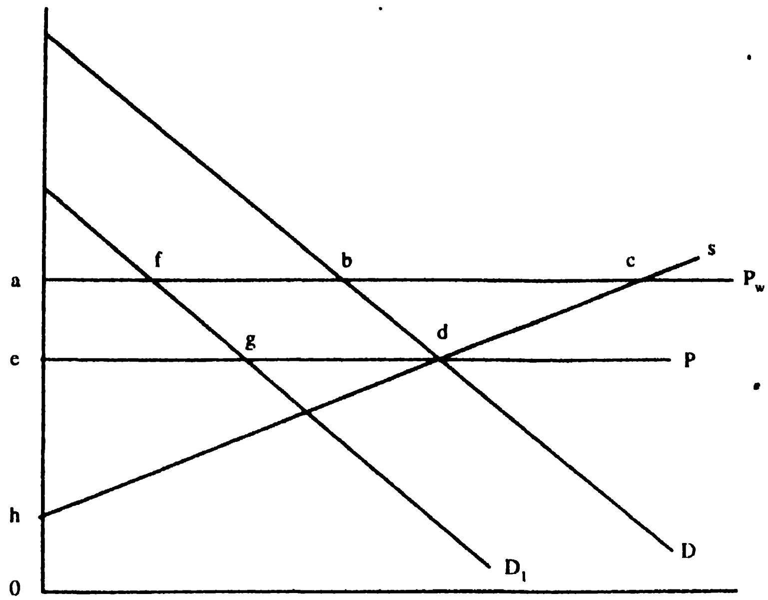
As the policy provides certain incentives for technological change for generating dynamic comparative advantage in relatively high technology industries on the production side, it should not provide any impediment or disincentive to industries that have static comparative advantage in exports. This is particularly important in overcoming both domestic and external savings constraint for long-run economic growth as the policy intervention on this front may cause persistent current account deficits and also redistribution of income.

In the past and present, exports of certain agricultural commodities and raw materials and intermediate goods are blocked both directly and through overvalued exchange rate to facilitate domestic value-adding (and also to keep wage goods prices low with an inherent bias towards urban consumption). This policy is erroneous because it will not only lead to redistribution of income, dead weight loss in the transfer but also encourage inefficient value-adding in the manufacturing sector. We illustrate this by taking a simple partial equilibrium framework.

Take commodity X, which can be consumed directly by households and also can be converted into commodity Y by value-adding in the manufacturing sector. Direct consumption of X is done by both poor and rich households while the value-added good Y is consumed only by richer consumers. A simple example is rice: which is consumed both by poor and rich households. But rice converted into processed food is consumed by the richer consumers. Another example is potatoes and potato chips.

In Figure 2, D represents total demand and S is total supply of X. D_1 is the demand curve representing the direct consumption by households. The residual of this from the total demand curve represents the demand for X to produce Y by value-addition. P_w is the world price of X, under the assumption that the home country is a price taker in the world market. If X is freely allowed to be

FIGURE 2



exported, ac amount of X will be produced out of which ab is consumed domestically and bc is exported. The producer surplus is represented by the area of ach. Take the case when the policy does not allow exports either by over-valued exchange rate or by direct controls and restricts the domestic price to P. Consequently, producers of X lose the producer surplus to the extent of acde. A part of this represented by abde is transferred to domestic consumers of X: afge is transferred to direct consumers of X and fbdg is transferred to producers and consumers of Y. bcd represents the deadweight loss which does not accrue to anybody. The restriction on exports results in redistribution of income away from producers of X, say agriculture, to consumers. A part of this transfer, fbdg goes to richer consumers (of Y) and also profit income of producers of Y if the production of Y is characterised by non-competitive market structure with excess profits.

Y can be domestically consumed and a part of its output can be exported. The export competitiveness of Y may arise because of lower price of X (which is the raw material), rather than because of competitiveness of value-addition. If this is the case, it gives incentive for inefficient value-addition. Y's export competitiveness should arise out of efficiency in value-adding rather than because of keeping the domestic price of X lower than world price.

If the policy objective is to protect poorer household consumers, the public distribution system should be stronger and targeted. Restricting exports simply leads to net redistribution of income, dead weight loss and disincentive for producers of X to increase supply by investing in technology and other productivity enhancing methods which should shift the supply curve down and benefit both domestic producers and consumers. The above illustration applies to several commodities like rice, cotton, leather, etc, whose exports are not allowed freely with the objective of encouraging domestic direct consumption and value-adding.

The welfare enhancing outcome of free trade in the trade theory depends on the assumption of absence of negative externalities in production. If there are strong negative externalities in production of exporting commodities and export price does not reflect the social costs, increase in output through trade is welfare-inferior for the domestic economy. In the context of market reforms in developing economies, free trade may shift resources to labour-intensive sectors like dyestuffs, leather goods, fish farming, etc, where negative externalities in production are very dominant. If exports in these sectors are price elastic, the effect will be even more dominant by making domestic producers to undertake cost-reducing efforts by violating environmental standards. The policy intervention should be on the production side rather than letting importing countries impose environmental tariffs. The imposition of these tariffs may cause a double effect of subsidising of consumers in developed countries by developing countries as the tariff revenue goes to foreign governments. If tariffs are imposed on price, it will make things even worse by making domestic producers keep (average cost of production and) price lower by violating environmental standards [Patibandla and Shukla 1996].

This analysis also applies to goods produced from common property resources for which current market prices do not reflect future (costs) demand and supply because

of market failure. Under these possible outcomes, it is better for domestic government to impose an optimal tax on the production side of these sectors even if it reduces output and exports.

VIII
Implications of Short-Run Capital Inflows

To recapitulate, management of competitive exchange rates is very crucial for not only exploiting static comparative advantage but also generating of dynamic advantage in selective industries. In order to generate incentives for growth through trade, exchange rates should reflect the productivity of the real economy rather than short-run movements in the financial sector. Improper exchange rate policies might generate more instability and are inimical to growth than import controls. Over-valued exchange rate can generate instability by causing trade deficits that are unsustainably large and therefore balance of payments crisis [Rodrik 1996].

Recent financial sector reforms in India that provide incentives to short-term capital inflows would do more harm than good by causing less desirable macro-economic effects like monetary expansion, inflationary pressures, exchange rate appreciation and current account deficits. Exchange rate should be adjusted only for long-run shifts in productivity rather than letting them to fluctuate because of movements in short run of capital flows. Short-term flows of capital also cause other harmful effects, as they reduce domestic interest rates and increase consumption and reduce domestic savings and cause current account deficits.[7]

IX
Conclusion

In the context of increasing integration of economies and rapid technological changes, the issue of economic growth in developing economies has to incorporate several other important variables apart from capital accumulation. For catching up with developing economies, allocating capital for intentional technological efforts and increasing labour productivity is as important as capital accumulation. In the absence of technological progress, the terms of trade for developing economies will always be worse as they have to pay high prices for the products of innovating economies. As shown by endogenous growth theory, technological change requires incentives emanating from both macro- and micro-level factors. International trade is an important source of these incentives in generating both intentional and by-product (externalities) technological change by extending market size (aggregate economic activity) and increasing competitive conditions. In order to realise the dynamic gains of trade, developing economies need to have certain minimum industrial agricultural and skill endowment which requires government investment in infrastructure, primary education and complementary institutions. Selective policy intervention on the production side may provide a cutting edge in realising the dynamic gains. Micro-level production efficiency and technological activity is very much dependent on the macro-level condition of aggregate economic activity. The role of international trade is increasing the aggregate economic activity by increasing the size of the market. But the gains through trade can be realised and magnified only when there is a vibrant domestic market base.

The past policy regime in India created a macro-environment which restricted realisation of static comparative advantage in exports. This, in turn, caused external and internal savings constraints by generating persistent current account deficits and redistribution of domestic income. Apart from this, it did not create incentives for significant technological change in the modern sectors towards generating dynamic comparative advantage in trade.

The generation of dynamic comparative advantage in modern industries through technological change requires investment in social and knowledge capital and also deliberate technological efforts on the part of firms. In the past and also in the present the investment in social and knowledge capital and infrastructure has come mostly from government and revenues for government investment are generated from a highly regressive tax structure. The notable side of the story is while the average rate of profit in the Indian corporate sector had been very high at about 30 per cent (the corresponding figure for the South Korean firms is only 4 per cent, see World Bank 1989), most firms in the corporate sector have been observed to be zero tax paying and invest very little in social and knowledge capital. The Indian corporate sector continues to be myopic with a very little investment from it in R&D and social infrastructure. The policy at the present juncture has to design and implement a carrot and stick mechanism that makes firms invest in knowledge and social capital and undertake deliberate technological efforts. Import and export policies that reflect global competitive market mechanism could be an important part of this strategy. Import policies that give greater access to technology and intermediate inputs to firms should at the same time discipline firms to make deliberate technological efforts towards improving efficiency. As shown in this paper, a sequential reduction in tariffs on imports of final goods could function as a stick (disciplinary mechanism) to cause firms to undertake deliberate technological efforts. Furthermore, investment in R&D and technology increases wage levels of scientific skilled labour which in turn, provides incentives for technological skill acquisition by labour. For example, a dominant reason for the best-trained engineering graduates going for management education in India at present is because of the distorted incentive structure. A very low investment in R&D by the corporate sector depresses salaries of scientific manpower and high investment in marketing increases wage levels of marketing managers. This, in turn, makes an engineering graduate acquire an MBA degree in marketing instead of going for a scientific job which is basically a cumulative loss to the economy.

There are a few specific domestic industries which are skill-intensive and have strong and growing domestic demand base. This gives them a starting comparative advantage in exports. For terms of trade to be favourable, these industries should be on the technology frontier. An element of policy support in terms of providing incentives for R&D investment and technological efforts in these industries might be quite effective in providing a cutting edge to be on the technology frontier in the world market.

Notes

1 See Grossman and Helpman (1992) and Edwards (1993) for a review of this literature.

2 Syrquin and Chenery (1989) show that in the period of 1952 to 1983, in a sample of over 100 countries those with an outward orientation achieved an average output growth rate of 5.22 per cent per annum and an average growth rate in total factor productivity of 2.2 per cent per annum. Those with an inward orientation grew at an average rate of 4.28 per cent and experienced average growth in TFP of only 1 6 per cent.

3 For example, in the semi-conductor industry, average cost can fall by 20 to 30 per cent every time its cumulative output doubles. See Geroski (1991).

4 Japan, after years of imitating and absorbing foreign technology, became an important innovator in consumer and capital goods in 1980s because innovation is highly essential to retain comparative advantage in continuously changing technological frontier in the world market.

5 See Krishna and Sahota (1991) and also Patibandla (1996a) for a detailed explanation of this methodology.

6 One caveat to this observation is that the ability of the tariff policy in sequencing tariff reductions requires an understanding by the policy-makers of the time frame required for domestic producers in undertaking technological efforts to become internationally competitive.

7 The recent Mexican crisis of December 199[illegible] was mainly due to exchange rate mi[illegible]

management with high levels of short-run capital inflows

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Managing the Crisis

Bharateeyudu and the Ambivalence of Being 'Indian'

Tejaswini Niranjana
S V Srinivas

The films of Shankar and Maniratnam have acquired a following that goes beyond the traditional 'class' audience because of their direct and innovative engagement with the present. But to read Shankar's Bharateeyudu *as an argument for liberalisation is to miss the point. What the film demonstrates unequivocally is that something is indeed wrong with our liberalised or liberalising present, that it requires re-evaluation and intervention.*

IN the spectacular spaces carved out by recent south Indian commercial cinema, one is beginning to notice a certain proliferation of popular idioms dealing with political questions, a phenomenon that demands to be seen as part of attempts in different realms to 'manage' the crises of our times. One of the commonest names for the interconnected processes that are transforming our society, the name that at least for some is also a signifier for contemporary crises, is liberalisation. We would like to suggest that the term is popularly used not only to refer to the actual economic changes being wrought in India, but also to index something more diffuse, the new ways of life which are emerging and the elaborate discursive procedures that endorse and perpetuate them.

It is perhaps because of their direct and innovative engagement with the present that the films of Shankar and Maniratnam have acquired a following that goes beyond the traditional 'class' audience, coming to include many of the average moviegoers (the 'mass' audience) that throng to the films of Chiranjeevi and Rajnikant.[1] Clearly, Maniratnam's *Roja* and *Bombay*, and Shankar's *Kaadalan/Premikudu* and now *Indian/Bharateeyudu*[2] all attempt to articulate contemporary anxieties in the realm of the popular in ways that have successfully appealed to heterogeneous audiences. However, we would not want to argue that these two film-makers deploy the same sort of cinematic idiom or occupy the same ideological spaces, although one finds in Shankar's films a constant intertextual polemic with Maniratnam.[3] As we have suggested elsewhere, the former came as it were into the techno-aesthetic space created by the Maniratnam films, but extend their signifying range in unpredictable directions.[4] Similarly, in Shankar's *Premikudu* or *Bharateeyudu* we do not find the sort of relentless celebration of the new middle class that we have come to expect in Maniratnam's films. Instead, although the former do represent 'liberalised' spaces, they employ modes of representation that ironise, and dislodge, the iconicity of such spaces, as in *Premikudu*, or render our responses to them ambivalent, as *Bharateeyudu* does.

Bharateeyudu (1996)[5] has none of the consumerist euphoria and gaiety of *Premikudu* (1994), and in spite of the elaborately choreographed song sequences the dominant note is sombre, even menacing. It is possible to read the film as an apologia for liberalisation, or rather as an argument for the need to achieve that state. But to do so, we think, is to miss the point altogether. What the film demonstrates unequivocally is that something is indeed wrong with our liberalised or liberalising present, that it requires re-evaluation and intervention. While the film's analysis and the way it presents our options may be disturbing to some, we would like to underscore the importance of investigating the construction of commonsense in the film and its architecture of consent/implication. Starring Kamalahasan in two roles, father Senapati and son 'Chandu' – Chandra Bose, named after his father's commander-in-chief in the Indian National Army (INA) – the film also has three significant female figures, Amritavalli, freedom fighter and Chandu's mother, played by Sukanya, and Ishwarya and Swapna, the two women interested in Chandu, played by well-known Hindi stars Manisha Koirala and Urmila Matondkar respectively.

The film revolves around the conflict between Senapati and Chandu, although the fact that they are related is not revealed to us until after the intermission. In the second of the film's two long flashback sequences, Senapati catches Chandu trying to get his sister to forge the father's signature on a cheque. Chandu says he needs the money to bribe his way to a job, and is admonished by his father: "You should have studied harder and got better marks". Senapati also rejects Chandu's suggestion that he use the freedom fighter's quota to get the latter a seat in a medical or engineering college: "That is meant for *poor* freedom fighters' children". He advises his son to give up his dream of getting a city job and become a farmer too, but Chandu wants to be 'modern', and not remain in the 1940s – as he says – like his father, who he declares belongs in a museum. So Chandu leaves home for the city, and becomes a tout in the regional transport office, until he bribes his way to the job of a brake inspector. Bribery or 'corruption' is the central theme of the film. Its pervasiveness in our present is what, according to Senapati, is destroying the nation. After he loses his only daughter because of his refusal to pay bribes to a doctor, a police officer and a village administrative officer, he decides to uproot "the weed of corruption" by deploying the skills he learned during his INA days. Not all his victims, however, are those who have personally harmed him. Indeed, the film opens with the killing of a municipal commissioner with whom Senapati has no direct link, and who mistakes the old man for a courier he was expecting with a bribe.

For a film which characterises the present as degenerate, the past perhaps necessarily stands as a point of contrast. Interestingly, it is only the pre-Independence past which provides this contrast: the first long flashback, in black and white to create the effect of verisimilitude, narrates the heroic actions of Amritavalli and Senapati during the freedom struggle. The woman is seen as engaging in two major acts of defiance – refusing to salute the British flag, and leading a group of women in burning foreign cloth.[6] Senapati, on the other hand, is shown killing both the British officer who beats Amritavalli for not saluting the flag, and the other officer who orders the disrobement of the swadeshi women who are consequently driven to suicide. Indeed, the image of ritualistic killing dominates the nationalist flashback, as much as it does the real-time story of the film.

Rewriting Nationalist History

Part of the project of the film, we suggest, is to rewrite the story of nationalist struggle in such a way as to condemn the present as well as indicate what it will take to transform it. In this rewriting, the iconic figures of Gandhi and Nehru give way to Subhas Chandra Bose.[7] Bose is in fact the only nationalist leader prominently shown in the

flashback, in documentary footage. While Gandhi is completely absent, Nehru appears only fleetingly, again in news footage, in the left-hand corner of the frame, his voice uttering, "At the stroke of the midnight hour...", immediately followed by the appearance of the Indian flag, in colour, taking the place of the British one from the black-and-white part of the flashback. Except for two brief shots of Congress activists just before the fragment of the Nehru speech, the only freedom fighters shown in the flashback are seen going off to join the INA and then later taking part in INA activities. Sacrifice and heroism thus appear as the supreme qualities of Bose's followers, who end up being marginalised in the actual transfer of power.

The film does acknowledge, however, that the freedom struggle was not simply one movement Amritavalli asks the CBI officer Krishnaswami who comes to Senapati's house posing as a freedom fighter: "Which freedom struggle were you part of? Salt satyagraha? Non-co-operation? Extremist? Terrorist? Were you in the Bose group?..." *Bharateeyudu* selects Bose and the INA over the official Gandhian nationalism, possibly to suggest that Gandhi and Nehru, figures popularly identified with the post-Independence nation-state, are indeed a part of the problem. What they have left behind is a decaying nation which has failed to live up to the glorious sacrifices of the freedom fighters. The INA, on the other hand, is seen as representing a more uncompromising nationalism, one that offers direct solutions to present-day problems: fearless, violent struggle and instant justice. But these solutions have not been part of the dominant image of nationalism. Senapati's wife Amritavalli is the filmic character most closely identified with this sort of nationalism, since she is shown leading a group setting fire to foreign cloth, and refusing to salute the British flag. On both occasions, she has to be rescued by Senapati when she incurs the wrath of British officers; both times he kills the officer concerned in near-immediate retaliation. Although in later life Amritavalli stands by her husband when he takes up his struggle against corruption, and although she too is a freedom fighter, she is not endowed with the moral stature of Senapati, or his moral strength. Her devotion to Chandu, her 'motherly instinct', comes in the way of her commitment to her husband's cause: when her daughter is dying of burns she tries to bribe with her jewellery the doctor who has refused to treat the girl; when Chandu is being pursued by his avenging father, she tries to save him by tacitly declining to tell Senapati of his whereabouts.

Amritavalli seems to represent a 'soft' nationalism, figured in the film perhaps by the absent Gandhi.[8] Her love for her children overshadows her nationalism in the present. Unlike her commitment to the nationalist struggle in the past, her present response is remarkably apolitical, the family being shown as more important for her than the nation. Although this invites the chiding of her husband towards the end of the film, this is precisely what endears her to us – her attempt to be a good mother. Senapati, on the other hand, is not merely a father. His re-politicisation into heroic, violent and terroristic action is counterpointed by Amritavalli's gradual depoliticisation into motherhood. Her image, we argue, represents a gendering as female both aspects of the dominant strand of the nationalist struggle – Gandhian non-violence, as well as the maternalistic welfare state Nehruvian socialism which has failed because it is not tough enough on its citizens. Towards the end of the film, when Senapati is arrested for murder and is being taken away by the police, another old man from the crowd calls out: "Why are you arresting this old man? He's been doing what the government couldn't do in 50 years".

This emphasis on the moment of transfer of power is invoked in another image which is also that of Senapati's imprisonment, when he was a young man. On the eve of independence, Senapati is captured during an INA battle with British troops and tortured in jail, being released only after the country has gained independence. The year 1947 is indicated as the crucial cut-off point, the seemingly glorious moment of our history which is really the beginning of our downfall; in this narrative, it is fitting that Nehru is presented as presiding over the inaugural moment of nationalism gone wrong, whose future comes to fruition in our corrupt post-colonial present.

Everyday Corruption

It is as if all the misery of the present can be condensed into this one image of corruption. Those who are corrupt, according to the film, are government officials, employees of the state. No politicians are shown as implicated in this. 'Corruption' is produced in *Bharateeyudu* as self-explanatory, self-evident, as the truth about our predicament. Corruption, the film seems to say, is something one finds in everyday interactions, and not necessarily in high places: Senapati's targets are middle or low-level government officials – the corporation commissioner; the village administrative officer; the police sub-inspector; the doctor (later a dean in Nizam's hospital); the treasury official; the traffic policeman. Corruption is presented as a problem for all sections, but more so for the poor. Senapati asks the VAO who demands a bribe: "I can pay because I have the money, but what about the poor?" Poverty figures briefly but prominently, symbolised by the old woman whose cobbler husband is killed in a police firing even as he sews Senapati's belt. But the film is not about poverty or the problems of the poor. The state will take care of those among the poor who have been subjected to unjust or undue hardship, if only the servants of the state would do their duty without expecting 'extra' for it. The primary cause of the poor's suffering, then, turns out to be the corruption among government employees, from the attender to the treasury officer.

The way the film piles image upon image of petty acts of bribery appears to mimic, and reinforce, the anecdotal mode in which middle-class grievances are strung together and presented as social analysis. This is perhaps one of the reasons why the film depicts low-level corruption: it helps produce the frisson of recognition, it is seen to touch everybody's life; everyone we know can come up with illustrations to endorse the film's representations. The personal narratives of corruption that the film invokes are reminiscent of the manner in which such anecdotes were mobilised during the anti-Mandal agitation to decry the 'evils' of reservations. Mandal is indeed a tacit reference point in the film, as we shall elaborate later. How the film secures our consent for its analysis is directly related to how its audience is enabled to disavow corruption, turn it into a phenomenon that it is part of but shown as distanced from at the same time. This disavowal is accomplished through complex structures of identification.

There are the victim figures we sympathise with, even the ones who are compelled to give bribes, like the cobbler's wife, or Chandu in the first part of the film. The taking of bribes is seen as far more serious, earning from Senapati the penalty of death. Sometimes, as in the case of the corporation commissioner killed by Senapati in the opening scenes of the film, the giver of the bribe is not even shown. Although after Senapati's appearance on TV, some officials attempt to make reparation, no bribe-giver is ever shown as repentant, suggesting that the giving is under duress and that the giver is not part of the same market economy as his or her exploiters.[9] The character of Chandu is in some ways an exception; initially the audience is on his side, when he is shown as a victim of the system, forced to give bribes to survive. He begins to slip in our estimation only when the link between consumerism and corruption is made evident.

Morality as Politics

Our initial identification with Chandu, presented as a genial and hapless young man, desiring the life of the modern that his

father's austerity denies him. His 'corruption' is shown for the most part not as a way of life held up for admiration but as street-smartness, as a way of negotiating the modern. Thirdly, there is Senapati himself, the harmless-looking old man with a militant past, roused into action by the corruption of our times. Senapati offers a moral analysis of our predicament, not a political one. However, *Bharateeyudu* depicts the past almost entirely in conventional political terms, whereas the present is shown as both apolitical and immoral. Senapati, on the other hand, is the supremely moral subject, and therefore in the film's terms the supremely political subject too. When he appears on cable TV to harangue the nation and execute the corrupt doctor, he is literally clothed as a political subject – he wears his INA uniform with a round pin on the chest carrying the colours of the Indian flag. The film seems to suggest that Senapati's everyday dhoti and kurta is actually a disguise, just like the western-style suit which he wears in the last sequence. His most natural dress is the INA uniform (the dress that shows us who he 'really' is), which he wears when he offers his diagnosis of what is wrong with the nation. The clothing, then, enables the moral diagnosis to be presented as a political one, just as Senapati's actions – arising out of a moral indignation – are politicised by the film, seen as making for change. The production of Senapati as authentic political subject thus validates his analysis of corruption as a political statement, not a moral one, so that in the film the ethical appears as the political. The persuasive force of this analysis stems from corruption's availability as a commonsense critique of the present, a critique that appears to span various ideological differences. This consensus is related in turn to a wide acceptance of what constitutes the liberal state and what kind of regulation of civic life it should provide. The nationalist citizen, the citizen endowed with rights, is presented in this film as a militant citizen-subject, in short as a vigilant citizen attempting single-handedly to enforce good governance. The IPS officer Krishnaswami, played by Nedumudi Venu, who bonds with Senapati as he pursues him, says he would himself ask for Senapati's autograph if he did not have to do his duty by arresting him for murder. Our sympathy is continually elicited for the good policeman – if he had been of an older generation, he could indeed have been Senapati himself.[10]

The portrayal of all the organs of the state, repressive as well as welfare apparatuses, as corrupt, the elimination of corrupt officials and Senapati's broadcast to the nation on cable TV blaming corruption for the country's backwardness, sets the stage for the final confrontation between Senapati and his son. The immediate context is Chandu's issuing, in return for a bribe, a false fitness certificate to a decrepit bus which leads to the death of 40 schoolchildren. Chandu tries to bribe his way out, pleading with the police officer investigating the case and the government doctor involved in the autopsies that they ought to help each other, since they are all government servants. Caught redhanded by his father trying to inject alcohol into the dead bus driver's body so as to falsify the post-mortem report, Chandu appeals to his father's love. Senapati describes this as an emotional bribe, and tries to kill him, with the same knife from his INA belt he has used on the other government officials. Chandu escapes, but is ultimately tracked down by the 'meticulous old terrorist' and killed after a breathtaking chase.

Split Hero

When did we last see a 75-year-old hero? How are our sympathies finally secured for Senapati? As audience, our interest is made to swing away from Chandu to his father. We suggest here some of the ways in which this is managed. The narrative crucially hinges on the confrontation between father and son, and what the two characters represent. The two men stand not for 'tradition' and 'modernity' but for two related yet different perspectives on the present. Significantly, they are presented as rival heroic figures up to a point. They are in fact introduced as individuals unrelated to each other, although both are displayed to the audience as 'heroic', albeit in different ways. Generally, in Indian popular cinema dual roles complement each other and the tensions generated between the two are usually resolved by the film's ending, which shows the two joining hands to defeat the common enemy. *Bharateeyudu* plays with the audience's expectations, allowing us to assume until almost the very end that father and son will be reconciled, that Chandu will mend his ways. The younger 'hero' is presented to us as a 'common man', a victim of the corrupt system who has nonetheless gained a place for himself within it. Chandu gains our admiration and sympathy for his ability to succeed in a system where all the odds are against him. He is shown to us literally on the streets, struggling to survive as a tout. His predicament is partly due to his father's refusal to help him (ignoring a cardinal rule of paternal responsibility). Chandu also demeans himself, doing menial jobs because of his love for Ishwarya. He wants to bribe his way into a brake inspector's job because he does not want to marry the girl while he is only a 'broker'. Interestingly, the choice for him is not between honesty and corruption but between being a broker for the corrupt machinery of the government and becoming a part of it. We are not induced to condemn him, initially. He is presented as comic but not foolish; we laugh at his troubles which actually endear him to us. Like the conventional hero, Chandu is macho, to the extent that there is a 'surplus heroine' trying hard to engage his attention and who is in a position to exploit him sexually. This other heroine's main function is to enhance the attractiveness of the younger hero.

The film presents us with two narratives that run parallel to each other, each centred around one of the heroes. The editing ensures that both share reel-time almost equally, with rapidly alternating sequences that feature each of them in turn. Chandu's narrative is about the naturalness of corruption, of its regretted but inevitable place in our daily life; here corruption is dramatised for us in a series of comic episodes involving not only Chandu but also the minor characters Subbiah and Pandireswara Rao. "What is government?" Chandu's sidekick Subbiah asks rhetorically of a young man he is trying to induce to part with a bribe for a driving licence, "Putting amounts in envelopes is government". Senapati's narrative, on the other hand, depicts corruption as the supreme evil, diagnosing it as the 'cancer' eating away our body politic. Described thus, it can only be fought by the direst of means. The forcefulness of the film lies in its ability to allow its audience to appreciate and inhabit both narratives simultaneously, until certain events jolt it into accepting one over the other.

Even as Chandu romances, dances and fights his way into our hearts, Senapati's narrative grows progressively more central to the film. The old man is shown performing crucial tasks which are generally set aside for a younger hero. Each one of Senapati's killings is graphically depicted, but there is a striking economy of violence in his actions. Unlike the lengthy, conventional fight scene between Chandu and the man who steals Ishwarya's animals, Senapati's murders are quickly and efficiently performed – deft use of his fingers and a couple of thrusts with his knife is all a killing takes. Like the traditional hero, Senapati is shown outwitting the police, who, incidentally, are depicted as extremely efficient and non-violent in their methods. He shares the audience's knowledge of events which he does not witness. For instance, he knows intuitively where Chandu has hidden his mother; changes the colour of his van when we learn that the police are looking for him; knows that the CBI officials have a videotape of his final escape.

The process of constructing Senapati as the 'Indian' continues throughout the film. The long flashbacks contribute to locating him in the nationalist movement, the

archetypal source of the heroism of the modern Indian, as well as creating his credentials as the wronged, revenge-seeking hero. Chandu, on the other hand, is increasingly seen as marked by an emptiness: not only does he have no claim on the national movement, he also crosses over to the other side, returning to the village briefly only to blame his father's uncompromising stand on corruption for his sister's death.

The televised murder of the doctor who refused to extend medical assistance to Senapati's daughter is followed by the old man's incorporation into the public iconography of heroism. An enormous hoarding of his figure appears at a busy intersection, and we are shown instances of people using intimidation of various kinds against corrupt government servants.[11] Simultaneously, Chandu's hero-value is being eroded for us as we watch him, after the bus accident for which he is responsible, take recourse to bribery in order to falsify the police and medical reports. It is at this point that we finally abandon Chandu to his fate. His realisation that his father will not spare his life coincides with our realisation, which is as shocked as Chandu's is, that the young man is not a true hero after all. Not only will he die, but his death will not be tragic. He hits his father with a stool, enabling the police to arrest him, and shouts that Senapati be hanged. Till the end of the film, Senapati and Chandu retain their mutually opposed beliefs. What changes is the audience's estimate of each. While Chandu is willing to sacrifice his father to save himself, Senapati is prepared to sacrifice his son in order to save the nation. In this way, the complementary dual hero of popular cinema becomes in *Bharateeyudu* the split hero.

Both characters make a claim for the status of hero, since both share qualities generally identifiable with the hero, and contrary to our expectations it is the older man who wins out in the end. Part of the film's appeal lies precisely in this unusual movement of the narrative with regard to the father-son pair. The enormous technical and financial investment in Senapati's make-up (or Kamalahasan's disguise) has found its place on the film's posters as one of its highlights, and has indeed been received as such by cross-sections of the audience. Because of the fact that the undisguised hero also plays a major role in the film, the Senapati's make-up constantly draws attention to itself, eliciting audience questions such as "who is he? what does he really look like?" Senapati is admired not only because of what he stands for, but also because Kamalahasan as the old man puts on show his ability to play roles with a 'difference'. The film, then, demonstrates how it produces as 'real' an *embodied* person who does not exist outside the cinematic frame, unlike the star-body of the young Kamalahasan. For this production of the real, and the real as the truly Indian, the film sometimes has to take recourse to startling devices, such as the little episode of the traffic constable. In this episode, two characters unusual for Indian popular cinema are used to counterpoint and thereby affirm Senapati's identity. Two young African men (probably Nigerian, from their accent) who have been stopped on their two-wheeler by the bribe-seeking cop, are thrilled when Senapati knocks him out. They call out to Senapati, in English: "Hey, old maan!" "By the way, who are you?" "Me?" he says, with a self-deprecating smile, "I am an Indian".

Heterogeneous Address

The scene with the traffic policeman is also important for its underscoring of the anti-Mandal theme in the film, and we shall suggest shortly how it does that. It is worth stressing at this point that the film is read by us with the help of interpretive structures which have been formed through our understanding of present-day politics, in India at large and in Andhra Pradesh in particular. As has been argued elsewhere, incidentally in relation to Shankar's another film, one cannot measure the validity of a reading by its 'faithfulness' to some self-contained text of the film, but rather by whether it is able to throw light on aspects of contemporary politics.[12] One often hears today in the context of film interpretation an old accusation that used to have some currency in literary critical circles – the charge of 'over-reading', presumably referring to the valorisation of elements in a film that appear incidental to the narrative. It is likely that the same charge will be levelled against our reading of the anti-Mandal elements in *Bharateeyudu*. We argue that these elements form a crucial subtext in the film, although they cannot be read in a unilinear fashion, that is, *Bharateeyudu* cannot be described in any simple sense as anti-Mandal. The presence of what we call the anti-Mandal elements demonstrates that any film claiming to deal with the contemporary period cannot but allude to Mandal, however obscure or tangential such allusions may be. They form a subtle undertow to the main narrative, which compels us to read them in a particular way so as to endorse the logic of that narrative, whereas the same set of allusions in a different plotting might yield, as in Shankar's *Kaadalan*, an altogether different reading. This is due, we feel, to the heterogeneous structure of address of popular cinema. The unity of meaning is not necessarily conferred by an individual *auteur* (director/scriptwriter), but rather by the response of audiences formed by a variety of political questions that carry different valencies for each segment of spectators.

Bharateeyudu's narrative of everyday corruption, we argue, is both necessarily and inconsistently related to the anti-Mandal agitation. The event and its fallout (the analyses of the anguish of upper caste youth, the foregrounding of the reservations issue, the invocation of 'merit') is now so much part of the history of the present that anti-Mandal allusions are routinely available in the structuring of our commonsense to be put to a variety of uses. Take the traffic policeman scene for example. Senapati wanders through, his attention drawn by the policeman's stopping of a young office-going couple on a motorbike. The driver of the bike is asking the policeman why he cannot be allowed to go, since all his papers are in order. The man, after asking for a bribe of Rs 150, is shouting at the unwilling motorcyclist. Senapati stands next to the young office-goer, listening. He asks the young man to take off his shoe, picks it up, puts it on the seat of the traffic policeman's motorcycle, and tells the policeman he must clean the office-goer's shoe first and then take the money. In this fleeting gesture which in many ways is more violent than the blow with which Senapati later knocks out the policeman, an entire caste hierarchy is etched – one which inscribes the victimised office-goer as upper-caste/class and the bribe-seeking policeman as lower caste/class.[13] The meritorious, the scene suggests, should be exempt at least from polishing their own shoes. In our post-Mandal present, this symbolism requires no further interpretation. What the image of the shoe does economically is to yoke together the corrupt and non-meritorious with the inefficient 'quota' officer, the larger imagery in which both are held containing the idea that both kinds of public servant are merely self-seeking, and therefore do not have the interests of the nation at heart.[14]

Another sequence thematises a popular anti-Mandal image – that of the good dalit in his place, the deserving lower-caste poor person, contrasted implicitly with the corrupt traffic policeman. A cobbler by the roadside is hard at work, sewing Senapati's belt which doubles as a knife-sheath. A demonstration is taking place nearby, with young men holding aloft placards which read, in English, "Revolution", "Stop Corruption!" etc. The police open fire on the crowd; a young protestor is shot through his leg, and the bullet passes right through and hits the cobbler, killing him instantly. When the government announces compensation of Rs 10,000 to the families of those killed in the incident, the cobbler's wife puts in an application. We follow her travails as one treasury official after another demands a bribe from her – this is not depicted in real

time but forms part of the woman's guided tour of the treasury provided to another poor woman who has come there hoping for a similar compensation. After using up her savings for the smaller bribes, the cobbler's wife is finally shown helpless before the officer who demands a cut for passing on her cheque. When she starts abusing him, he has her evicted from his office. In the crowd outside is Senapati, who, in the sequence that follows, seeks out and kills the treasury officer. In the wake of Senapati's televised killing of the doctor, an official from the treasury brings to the cobbler's wife the money the government owes her. As he leaves, she says, referring to Senapati: "Who is that man? If he stands for election, my vote is for him". In Senapati, we find the authoritarian (male) figure who proclaims his intention to root out corruption – shades of Seshan – and is solicited by the public to seek electoral office. "Fear is my weapon", says Senapati in voiceover when he decides to avenge his daughter's death and crusade against corruption, "Fear of punishment, fear of death". Fear and the violence which produces it are presented in *Bharateeyudu* as the sole guarantors of both stability and civic responsibility.

Yet another deployment of a distinctly anti-Mandal image is that of the middle class, upper caste person doing menial tasks. As part of his effort to get the brake inspector job, Chandu does various small chores in Swapna's house – running errands, threading her petticoat string – which, although presented as comic, somehow unman him, calling forth the audience's sympathy. These menial tasks are also seen as a direct outcome of corruption. Once again we see the convergence of the anti-Mandal and the corruption narrative: it is implied that because Chandu is an upper caste person he doesn't qualify for reservations, and that this is an important reason he has to resort to corrupt means to obtain a government job.

The relationship Swapna, daughter of Chandu's patron, desires with Chandu never has a chance, in spite of her beauty and intelligence. Surrounded by the consumer goods (cameras, CD decks, luxury cars) her government servant father has illegitimately managed to acquire, Swapna represents the link between greed and consumerism that the film portrays as the main cause of corruption. Chandu, on the other hand, desires to marry Ishwarya, who is a Blue Cross member obsessed with animals, marked by clothing and concerns as upper caste-class. While her obsession is gently ridiculed in the film, it functions as an index of her caste-class superiority (and therefore of Chandu's desire for her), most vividly in the sequence involving the ox-cart driver Mallesham, who she berates for ill-treating his animal. Although Ishwarya embodies Chandu's aspirations to be successful and modern, she is not shown surrounded by consumer durables. Presented to us as innocent and somehow pure, she stands apart from the world of the everyday and above the corrupt system that Swapna and Chandu both inhabit. In a strategy of displacement, however, a fantasy song-sequence with Chandu and Ishwarya set in Australia likens the woman to a cellular phone, declares her voice to be "as though...digitally cut", and wonders if Brahma the creator used a computer to produce her. The depiction of Chandu as seeking a government job by any means because of his ambition to marry Ishwarya and not necessarily because of his desire for consumer goods, helps the audience see him as vulnerable and likeable for the better part of the film. Ishwarya's class position does not, however, prevent Senapati from pulling her up for showing more concern for animals than for the forty schoolchildren Chandu has unwittingly killed, an indication that within the parameters of the film, the rich can be subjected to criticism. But her inability to think beyond her love for Chandu and her inadequate concern for the nation, as we have seen with Amritavalli the mother, is pardonable, since it is a womanly trait.

The Eastern-Modern

We have tried to show how the narrative structure of *Bharateeyudu* produces an ambivalence towards the dominant model of modernity/nationhood that India has emulated in the post-Independence years. This ambivalence is accompanied, we feel, by a gesturing towards another model, that of the 'Asian tigers', a model we would like to name the 'eastern-modern'. This gesturing is endorsed by the rewriting of nationalist history that we have already described. In the film, the INA, with its 'eastern' connections, takes centre-stage in the story of the freedom struggle; the first nationalist leader shown in flashback is Subhas Chandra Bose, and it is the INA's confrontation with British troops near Kohima which in the cinematic narrative directly precedes – is therefore imaged as leading to – the acquiring of Independence.[15] Independence, however, becomes in the film a promise betrayed, resulting in the degeneration of the present in which both Nehruvian welfarism and western modernity are implicated. While the first has led to the proliferation of inefficient and corrupt government servants, the second has been responsible for the creation of consumerist desire on which corruption is seen to feed (Chandu promises as bribe a colour TV set to the police inspector and a 'laser disc' to the government doctor). The "Indian's" dissatisfaction with this state of affairs does not curiously enough manifest itself in an argument for doing away with the welfarist state or in an attempt to propagate a Gandhian model of living. Indeed, *Bharateeyudu* seems to clamour, as the 'old' Indian middle classes have been doing, and as most popular cinema does, for "clean governance", for an "efficient" state. In doing so, the film articulates the unease with liberalisation shared by various groups in India, despite the general consensus within the mainstream political parties that globalisation and liberalisation are inevitable. While the film does not seem to refuse this view, it does raise significant questions related to the kind of model of the 'modern' we need to adopt. Unlike the 'tiny island states' around us, we have failed to progress, says Senapati in his TV address. It is corruption that is responsible for our "backwardness", according to him, and it is the state which harbours corruption, which is why his targets are all government officials. The rest of the east, however, is quite different: their states are so well-regulated as to be the least corrupt in the world. Not only that, the Asian tigers (and Senapati himself) also represent in the film a coming together of 'tradition' and 'modernity' with no visible conflict. The method used by Senapati to destroy his enemies is 'marmakala' – a usable 'tradition' represented in the idiom of popular cinema as extremely contemporary. Senapati's movements, and the accompanying soundtrack, are reminiscent of kung fu films in their stylisation. One of the reasons why the audience comes to reject the younger hero Chandu is that he has got it all wrong; for him the past/tradition is holding people back, whereas in the figure of Senapati tradition is shown as that which is indeed capable of propelling you into the future.

A strategy employed by the film to re-figure the tradition-modernity relationship is to dis-organise, as Shankar's earlier film *Kaadalan* does, the binary rural-urban created in different ways by both commercial and parallel cinema in post-Independence India. Senapati the old farmer is the person in the film most at ease with modern gadgets – he is shown driving a variety of vehicles; using a spray-can to paint the old van he buys; speaking over a cordless phone. As part of the suturing which enables us to accept Senapati over Chandu, no distance is revealed between him and the products of new technology. Senapati inhabits the space of these objects in such a way that they are naturalised, seen in use, not fetishised unlike in the Melbourne song sequence which features Chandu. The old man is completely in command at the private TV station as well, operating the machinery single-handedly without any fumbling. After the telecast in which Senapati is wearing his INA uniform, as part of the public celebration of his actions, we have a brief shot of a row

of young men on the street dressed in INA outfits, except that they are blue, mauve, and pista green. We hear in voiceover a girl exclaiming that all these young fellows look like 'Bose'. Given what we have called its heterogeneous structure of address, it is not incongruous that the film can make Bose part of a fashion statement, reinforcing through this fashion-as-politics the idea that young people today can be 'modern' and still be nationalist.

In this attempt to become modern, but not on the terms of the 'west', east Asia plays a prominent role in *Bharateeyudu*, being a locale in which we are constantly told, as in the popular narratives about Japan, 'tradition' and 'modernity' are combined in suitable proportions. The INA headquarters, where Senapati's valour is recognised by Subhas Chandra Bose, who pins a medal on him, was in east Asia, as the film reminds us; the 'east' is also the 'origin' of the march on the British forces in India which leads in the filmic narrative to the final confrontation with the colonisers; in the cable TV sequence, we hear the dialogue between the doctor and Senapati about the reasons for the prosperity of the small islands of Asia, and later the police are told, as an explanation for why the telecast could not be stopped, that the video-cassette was sent to Singapore and telecast from the Phillippines;[16] The final scene of the film shows us a phone booth against a background of skyscrapers. Senapati, who has escaped from the airport conflagration caused by his pursuit of his son, and is now dressed in a western-style suit, is speaking to the CBI officer in India. "So you're alive", says Krishnaswami, "Where are you?" Visual markers indicate that it is from east Asia that Senapati is keeping watch over India, although he does not reveal this to his interlocutor.[17] "I will return whenever a wrong has been done", he says, "There is no death for the Indian".

Notes

[We would like to thank Rekha Pappu, K Murali, R Srivatsan and Vivek Dhareshwar for their provocative comments on earlier drafts of this paper.]

1 This is a distinction made by popular film magazines and regular moviegoers. A 'class' film is distinguished from a 'mass' film by its supposed seriousness and higher aesthetic quality.

2 Earlier films by these directors were usually made in Tamil and dubbed into Telugu. Now they are being dubbed simultaneously into Telugu and Hindi, with some sequences re-shot to provide the local linguistic context. These dubbed films circulate in different political-cultural spaces from the 'original' Tamil versions. Our response to *Bharateeyudu* is to the Telugu version, which has been playing to full houses for over 60 days at the time of writing in 50 theatres all over the state.

3 This polemic can be seen operating at different levels of the filmic text. There is, for example, the comic scene at the racetrack when Chandu's sidekick Subbiah is trying to provoke his *bete-noir* Pandireswara Rao. The latter is in the stands with his young son, who is as dark and plump as his father is. When Subbiah asks for the name of the boy, the father says, beaming: 'Arvind Swamy'. The reference is to Maniratnam's hero of the same name, the star of *Roja* and *Bombay*.

4 See Vivek Dhareshwar and Tejaswini Niranjana, '*Kaadalan* and the Politics of Resignification: Fashion, Violence and the Body', *Journal of Arts and Ideas*, No 29, January 1996, p 15.

5 Direction, screenplay and story by Shankar. The Tamil version is called *Indian* and the Hindi version *Hindusthani*.

6 In order to juxtapose the different strands of the national movement, several campaigns from different decades are compressed together in the filmic narrative.

7 In our reading of the place of Bose in the history of nationalism, one of the books we found most useful is Bidyut Chakrabarty's *Subhas Chandra Bose and Middle-Class Radicalism: A Study in Indian Nationalism 1928-1940*, OUP, Delhi, 1990

8 A little joke is tucked into the filmic narrative as if to mark the absence of the real Gandhi. The only time we see a reference to this name is when we see a nameplate of Swapna's father. The name of this corrupt government official, a transport supervisor, is M Gandhi Krishna.

9 The film, while it seems to celebrate consumerism in the first two song sequence, for example, simultaneously appears to suggest that the desire for consumer goods is closely linked to corruption.

10 When Krishnaswami brings home-cooked food for the old man who is in custody, Senapati asks whether he has "changed his 'route'". "No", replies the policeman, "My route is the same as yours."

11 The presentation of a near-totalitarian justice might indeed be read as 'fascist', as the star Kamalahasan himself does in accounting for the appeal of the film (Interview with Khalid Mohamed, *Filmfare*, July 1996), but we feel that this description forecloses any attempt to analyse the ambivalent politics of the film. Most heroic figures in popular cinema can be read with equal certitude as fascist. If we accept this kind of reading, we run the risk of fitting the 'mass appeal' of popular films and their complicated structuring of consent into a simplistic analytical frame.

12 See '*Kaadalan* and the Politics of Resignification', p 19 and p 26 (endnote 16).

13 The film does mobilise the signifier of complexion in the representation of caste-class difference. Even without such a deployment, our argument is that the gesture of the shoe produces an entire structure of allusions which performs the function we have described. that of etching caste-class identity for the viewer.

14 The Senapati cutout that is put up at an intersection after his entry into the public imagination has a legend underneath, which reads in Telugu: "Students who have got seats without giving donations" Also, in the second flashback, Ambedkar's photo figures prominently on the wall, his image looming large between the faces of Senapati and the sub-inspector who is asking for a bribe This apparent discrediting by association of Ambedkar could also be seen as part of the film's general discrediting of nationalist leaders other than Subhas Chandra Bose

15 A half-page newspaper advertisement appeared in *Andhra Jyothi* (June 30, 1996) stating that the film *Bharateeyudu* is dedicated to the freedom fighter Netaji Subhas Chandra Bose on the occasion of his 100th birthday. The ad has a tricolour map of India on which is partly superimposed a black-and-white sketch of Bose and a coloured painting of the character Senapati in INA uniform. In the lower right-hand corner are photographs of the producer A M Ratnam, the director Shankar, and the music-composer A R Rahman.

16 Although we are shown the televised killing as though it is taking place in real time, the audience realises later that there is a time-gap between Senapati's production of the event and its telecast.

17 This choice of the eastern-modern might also imply a preference for a strong, repressive state which can afford to ignore the pressures of human rights groups and other such 'western' inventions.

Economic Reforms, Health and Pharmaceuticals

Conferring Legitimacy to the Market

Amit Sen Gupta

The 'safety net' formula being propounded by the World Bank can be seen as a partial strategic retreat of the earlier Bank prescriptions of near total withdrawal of the state from all social and infrastructure sectors. The impact of these reforms in the health and pharmaceuticals sectors has therefore not been uniform and needs to be studied with care.

I
Reforms in Health Care

STRUCTURAL adjustment policies were introduced in this country in 1991 by the previous Congress government. These policies sought to – by way of fiscal austerity measures – cut government spending and subsidies in social sectors, reduce direct taxes, increase administered prices, liberalise trade by reducing tariff rates and providing other incentives for foreign investments, privatise public enterprises, deregulate the labour market, etc. The policies were designed to clear the path for withdrawal of the state from the social and welfare sectors like health, education, public distribution system, etc. These policies use 'free market' ideology as the guiding principle, and are designed to place the 'market' in a central position of dominance, where it would act as the principal, if not sole, arbitrator of all processes. At a global level such a position is extended to encompass the concept of 'free trade' – a concept that has been captured in its full essence by the GATT treaty of 1994.

These policies had been introduced in many third world countries (mainly in Africa and South America), since the early 1980s. A constant feature of the adjustment policies adopted in these countries was the rolling back of many gains of the previous decades – however insubstantial they may have been – in the areas of health, education and food security. In the last two decades the World Bank has emerged as the key spokesperson on almost all sectors, including social sectors like health. Armed with the clout to follow up its prescriptions, the Bank has marginalised bodies like the World Health Organisation (WHO) and UNICEF in policy matters. The World Bank commented on the early trends set in motion by adjustment policies in Africa and South America in the following manner, "Because cuts in government spending are usually central to an adjustment programme, health spending is likely to be reduced. In many countries early cuts were indiscriminate and failed to preserve those elements of the health system with the strongest long-term benefits for health" [WDR 1993:51].

But much before the World Bank woke up to the damage done by the structural adjustment policies, other international bodies had already been drawing attention to this. The UNICEF commented, "For the first time in the modern era, a subcontinent is sliding back into poverty. The number of families in sub-Saharan Africa who are unable to meet their most basic needs have doubled in a decade. The proportion of children who are malnourished has risen" [UNICEF 1993:48]. The UNICEF went further in squarely blaming such conditions on the debt burden imposed by the Bank's policies on these countries, noting: "The total inhumanity of what is now happening is reflected in the single fact that even the small proportion of interest which Africa does manage to pay is absorbing a quarter of all its export earnings and costing the continent, each year, more than its total spending on the health and education of its people" [WDR 1993:45], and further, "Great change is in the air as the 1990s begin...And great change is needed if a century of unprecedented progress is not to end in a decade of decline and despair for half the nations of the world. In many countries poverty, child malnutrition and ill-health are advancing again after decades of steady retreat. And although the reasons are many and complex, overshadowing all is the fact that the governments of the developing world as a whole have now reached the point of devoting half of their total annual expenditures to the maintenance of the military and the servicing of debt [UNICEF 1991:1]. The impact of these policies were reflected in rising mortality and morbidity figures (Table 1).

As a result of the realisation of the disastrous impact of the early structural adjustment programmes in many countries, there was a move towards toning down of many of the prescriptions for the adjustment process – the so-called "adjustment with a human face". This shift did not fundamentally endanger the adjustment policies in these countries, but at the same time initiated some sort of "disaster management". It is in this context that the World Bank introduced the concept of a 'safety net' for the poorest, who were feeling the brunt of the adjustment policies most acutely. The term used is in itself interesting, implying as it does the hazards associated with the adjustment policies – thereby requiring the use of a safety net.

The need for a safety net is not determined by any altruistic concerns for the victims of adjustment policies in developing countries. Rather, they are an extension of the very same concerns which led to the World Bank/IMF combine pushing for the adjustment policies in the first place. Internal contradictions within the ranks of market economy countries in the 1970s fuelled the urgency for carving out third world markets. The precise mechanisms tailored to efficiently carve out the 'global cake' was pushed through in the 1994 GATT agreement. But much earlier, the World Bank had moved to initiate the structural adjustment programmes, which it hoped, would make markets of the third world freely accessible on one hand, and at the same time would bring an element of stability in these markets for long-term exploitation.

In the schema of seeking out markets in the third world, India occupied an almost unique position. The 'middle class' consumer market in the country is estimated to cater to a population of around 100 million – i e, larger or comparable to the total market in

Table 1: Infant Mortality Rates in Countries Implementing Structural Adjustment Programme

	1965	1980	1985	Per Cent Change (1980-85)
Ethiopia	165	146	168	+15.1
Mali	200	154	174	+26.5
Madagascar	na	71	109	+53.5
Uganda	121	97	108	+11.3
Tanzania	138	103	110	+6.8
Somalia	165	146	152	+4.1
Kenya	112	87	91	+4.6

Source: Rene Loewenson, 'Structural Adjustment and Health Policy in Africa', *Radical Journal of Health*, Vol 1, 1995.

the largest countries in Europe and about 40 per cent the size of the entire domestic market of the US There is thus a special interest in 'prising' open the Indian market for various global players to exploit. In order to nurture this market it is also necessary to increase extraction of surplus value from the 800 million who do not constitute a part of this potential market. In other words, policies designed, on the one hand, to increase the paying capacity of the target population in the potential market and, on the other hand, to keep the rest of the populace at a level of mere subsistence.

However, as noted earlier, the signals emanating from the countries that had taken up structural adjustment programmes in the early phase, were disturbing for those interested in exploiting untapped third world market. Disturbing not because of its actual effects, but because the effects threatened to totally disrupt the stability of these countries, and thereby of their markets. The safety net formula was hence required to bring back a semblance of stability in these countries, and had to be extended to countries now going in for structural adjustments, so as not to repeat the past experience.

The safety net formula can thus be also seen as a partial strategic retreat of the earlier World Bank prescription of near total withdrawal of the state from all social and infrastructure sectors While the World Bank continues to espouse policies geared towards private takeover of other infrastructure sectors like power, telecommunications, etc, in the area of health and education it has had to make certain concessions to the logic of state support. However the attempt is still to formulate a package which involves minimum state involvement. The intent is not to make provisions for comprehensive health care that required, in the words of the Alma Ata Declaration of 1978, "All governments should formulate national policies, strategies and plans of action to launch and sustain primary health care as part of a comprehensive national health system and in co-ordination with other sectors. To this end, it will be necessary to exercise political will, to mobilise the country's resources and to use available external resources rationally." The World Bank, in sharp contrast, believes in the necessity for a political will to restrict health care access when it says, "As policy-makers try to reach compromises, they must deal with powerful interest groups...and strong political constituencies, including urban dwellers and industrial workers" [WDR 1993:45].

II
Impact of Reforms on Health Sector

These are really the ideological underpinnings of the reforms process, which have moulded the content and reach of reforms initiated by the previous government on the health sector. The immediate fallout of the new policies was a cut in budgetary support to the health sector. The cuts were severe in the first two years of the reform process, followed by some restoration in the next three years (Table 2).

Some interesting facts emerge from the above figures. While between 1990-91 and 1993-94, there was a fall, in real terms, of expenditure on health care both for the centre and the states, it was much more pronounced in the case of the states. Expenditure for states, even in 1993-94 was lower than in 1990-91, though it had risen in the case of central government expenditure. Moreover, the percentage of expenditure incurred by the states on health care, as a percentage of total developmental expenditure incurred by them, remained fairly constant. What however did happen in this period was a compression of total developmental expenditure of state governments. Thus expenditure, in real terms, for state governments plummeted in 1991-92 and 1992-93, and just about touched the level of 1990-91 in 1993-94. But by 1993-94 central government expenditure had increased by almost 20 per cent over the level achieved in 1990-91. The fall in expenditure by state governments is a direct consequence of the reforms. States, in this period, were starved of funds due to lower transfers as well as due to the yield from shareable taxes (i e, taxes in which states get a share) falling from 5.6 per cent of GDP in 1990-91 to 5.1 per cent in 1993-94. This squeeze on the resources of states was distributed in a fairly secular fashion over expenditures incurred under all developmental heads. Health care was a major casualty as the share of states constitutes a major (approximately 75 per cent) portion of expenditure. A similar kind of squeeze in resource allocation was felt in all programmes, largely financed by the states, including water supply and sanitation. In contrast even in the worst 'resource crunch' years, the almost exclusively centrally funded family planning programme fared much better.

The above indicates the broad trends, but the inter-state differences bring out even more interesting nuances. Table 3 shows revenue expenditures in states between 1990-91 and 1992-93. The table indicates a distressing trend. While revenue expenditures (i e, largely expenditures for sustaining ongoing programmes) stagnated or improved marginally for the middle income and richer states, they fell sharply for the poorer states. Further, the fall was more dramatic in the case of expenditure on public health. Public health includes the major disease control programmes, considered as national priority areas, viz, malaria, tuberculosis, diarrhoeal

TABLE 3: TRENDS IN PUBLIC REVENUE EXPENDITURES ON HEALTH
(at constant 1991-92 prices, index 1989-90=100)

	1990-91	1991-92	1992-93
Medical Services and Public Health			
All states	106	102	102
Poor	98	93	93
Middle income	115	108	113
Rich	107	107	103
Medical Services			
All states	108	103	103
Poor	102	96	98
Middle income	113	106	107
Rich	111	110	105
Public Health			
All states	99	97	98
Poor	84	81	75
Middle income	126	121	137
Rich	98	98	97

Note: Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh have been taken as poor states, Andhra Pradesh, Assam, Karnataka, Kerala, Tamil Nadu and West Bengal as middle income and Gujarat, Haryana, Maharashtra and Punjab as rich states.

Source: Relevant years' budget documents of states and central Government, quoted in V B Tulasidhar, 'Government Health Expenditure in India', *International Health Policy Programme*, 1996.

TABLE 2 : REAL EXPENDITURE/ALLOCATION IN THE HEALTH SECTOR IN ANNUAL PLANS 1990-91 AND 1995-96
(at constant 1990-91 prices in Rs crore)

	Total Development			Health		
	Centre + States	Centre	States	Centre + States	Centre	States
1990-91	40062.79	23511.51	16551.15	659.53 [1.65]	188.75 [0.80]	470.80 [2.84]
1991-92	39074.95	22839.33	16235.62	628.99 [1.61]	182.25 [0.80]	446.74 [2.75]
1992-93	39946.00	23958.00	15988.00	665.00 [1.67]	210.00 [0.88]	455.00 [2.85]
1993-94	44573.00	27942.00	16631.00	658.00 [1.48]	203.00 [0.73]	454.00 [2.73]
1994-95 (RE)	48482.00	31186.00	17296.00	780.00 [1.61]	273.00 [0.88]	507.00 [2.93]
1995-96 (BE)	54662.00	33518.00	21144.00	924.00 [1.69]	285.00 [0.85]	639.00 [3.02]

Note: Figures in parentheses denote percentage over total developmental expenditure.

Source: *Health Information of India, 1993*, Central Bureau of Health Intelligence, Ministry of Health and Family Welfare, Government of India, and *Economic Survey 1995-96*, Government of India.

diseases, kala azar, etc. States tended to try to maintain expenditures at previous levels on medical care, a bulk logically flowing to institutions clustered in urban areas. Thus, in a period of compression of available resources, the most vulnerable states shifted funds away from programmes designed to benefit the most vulnerable sections. In practice, quite the opposite of the concept of 'adjustment with a human face' advocated by the World Bank. Table 4 gives the budget allocations for health in 1991-92 and 1992-93 for the poorer states. Except for Bihar, allocation fell sharply for all the other four poor states of Uttar Pradesh, Rajasthan, Madhya Pradesh and Orissa after 1990-91. In the case of Uttar Pradesh and Rajasthan the fall was as high as 40 per cent. It should be remembered that collectively, these five states account for in excess of 45 per cent of infant deaths in the country. Compression of funds available with states is likely to have had a number of other far reaching effects. Generally, expenditures on salaries tend to take up an inordinately large part of total expenditure. Table 5 is indicative of this. Salaries constitute 70-80 per cent of expenditure for most major programmes, and the trend is most distorted in the case of rural programmes, viz, rural hospitals and primary health centres. Faced with limited funds, while salaries still require to be maintained at previous levels, the burden of cut-backs are increasingly placed on supplies and materials. Ultimately a skeletal structure survives, incapable of contributing in any meaningful manner to amelioration of ill-health.

Expenditure patterns on health care are grossly skewed in favour of urban areas (Table 6). Expenditure cuts further distort this picture with the axe on investment falling first on rural health services. Table 7 shows the pattern of expenditure for different states, under the Minimum Needs Programme in the health sector, which targets the rural health sector.

Here again the effects of compression of resources are evident. For the whole of India, there was a decline in expenditure of 9.3 per cent in real terms, if the figures for 1990-91 and 1993-94 are compared. Moreover, there was a decline in real terms in expenditure in the case of seven of the 15 major states. Among them, Uttar Pradesh and Bihar showed the greatest decline. It must be remembered that expenditure under the Minimum Needs Programme are under the heads of rural health, rural water supply, urban slums and nutrition – all areas qualifying for special attention under the 'safety net' concept of structural adjustment programmes.

As a result of this rolling back of state support to health care the first major casualty in infrastructure development has been the rural health sector. There has been a perceptible slowing down in infrastructure creation in rural areas (Table 8).

The problem of gauging the actual impact of these cuts in spending and infrastructure development on mortality and morbidity indicators, is the notorious unreliability of health statistics in the country.[1] From the limited data available, the trends though equivocal, do appear to suggest a slowing down of the gains of the past few decades. Infant mortality figures (Table 9) are not as startling as the figures for Africa cited earlier, but do indicate cause for concern. The IMR in the first half of the 1990s does suggest a major slowing down in the rate of fall. This is further borne out by data available for the states (Table 10).

The IMR figures for major states indicate a slowing down in the rate of fall in IMR in the post-reform period. Ten states showed a slower rate in fall of IMR between 1989-91 and 1992-94. Only West Bengal, Andhra Pradesh, Karnataka, Madhya Pradesh and Uttar Pradesh showed an increase in the rate of fall of IMR in the period under review. These indications however are as yet equivocal and nowhere near the drastic rise in IMR seen in some African states. Of course, one possible explanation for this could be the fact that it takes 3-5 years for the impact of reduced health care facilities to be reflected by mortality indicators. Further, cut-backs in social sector expenditures in countries following adjustment policies in the early 1980s were much more severe than what was seen in India. In India, after 1993-94, there was even a trend towards restoration of many of the cuts exercised in the initial years of the reforms. The latter, was probably less an admission of the flawed logic of the reform process and more a reaction to political exigencies following repeated reverses faced by the Congress Party in state assembly elections across the country.

III
Conferring Legitimacy to the Market

The extent of cuts in health sector funding by the state and the consequent impact, as part of the reform process, are in a sense peripheral issues. The central issue that needs attention is the theoretical underpinning of the reform process *vis-a-vis* state involvement in social sectors like health. It is important to take note that structural adjustment policies are geared to restructure the economy in a certain manner and not to improve welfare measures. Reforms initiated in this country and elsewhere start from the premise that present levels of subsidies to the social sectors are unsustainable. So prescriptions for restructuring of the health sector are designed, not to provide the best possible health care but to maximise outputs from greatly reduced state support. Much of the theoretical justification for this is spelt out in the *World Development Report of 1993* titled *Investing in Health*. It states for example, "Adoption of the main policy recommendations of this Report by developing country governments would ...help to control health care spending. Millions of lives and billions of dollars could be saved." The report further adds, "Using cost-effectiveness to select health interventions for public financing does not necessarily mean spending the most resources where the burden of disease is greatest. Instead, it means concentrating on the interventions that offer the greatest possible gain in health per public dollar spent."

An abiding concern of the reform process in the country has been the need for the state to withdraw from areas of infrastructure. It

Table 5 : Expenditures on Salaries of Selected Programmes

(Per cent)

	Average Expenditure on Salaries	Average Expenditure on Supplies and Materials
Malaria	79	14
Leprosy	83	6
Tuberculosis	55	4
Urban Hospitals	66	24
Teaching Hospitals	58	25
Rural Hospitals and Dispensaries	73	15
Primary Health Centres	83	10

Source: Detailed Demand for Grants, 1992-93, respective states, quoted in Ravi Duggal, 'Health Expenditure Patterns in Selected Major States', *Radical Journal of Health*, Vol 1, 1995.

Table 4: Budgetary Allocation for Health by Poorer States

(Rs lakh)

	1989-90	1990-91	1991-92	1992-93
Bihar	5500	5500 (90.70)	8668 (125.67)	11431 (150.6)
Madhya Pradesh	4930	6778 (124.69)	7411 (119.87)	7578 (111.4)
Orissa	2221	3288 (134.27)	2273 (81.61)	3020 (98.5)
Rajasthan	3551	3654 (93.33)	4158 (93.37)	4457 (90.9)
Uttar Pradesh	9096	11910 (118.75)	9582 (84.00)	9058 (72.2)

Note: Figures in parentheses are allocation at constant prices where allocation for 1989-90 is taken as 100.

Source: *Health Information of India, 1993*, Central Bureau of Health Intelligence, Ministry of Health and Family Welfare, Government of India.

is a germane question, whether such areas are at all amenable to market forces, and if so at what stage. As has been pointed out, "It is common knowledge that savings/ investments (and labour productivity and incomes) are low in a developing country. There is no 'market demand' for basic infrastructure services. This is where Adam Smith's famous argument in favour of the state – erecting and maintaining those public institutions and those public works, which, though they may be in the highest degree advantageous to a society, are however, of such a nature that the project would never pay the expense to any individual or small number of individuals, and which it therefore cannot be expected that any individual or small number of individuals should erect or maintain – becomes obviously relevant" [Ghosh 1994].

It would be interesting here to examine in some detail the kind of spending that is done by countries on health care and the percentage of such spending that is borne by the public sector. Table 11 gives the comparative figures.

An analysis of this data shows very clearly that countries with higher income levels spent a larger percent of gross domestic product on health and, further, these countries also have a significantly higher percentage of these costs paid for by the public sector. Except the US, in all the large market economy countries the share of public sector in total health expenditure is in excess of 70 per cent. Even the US, with 44 per cent of health expenditure coming from public funds, is way ahead of India in this regard. Thus, what we have here is a clear illustration of the fact that market economy countries have been consistent in following the logic that development of health infrastructure requires state funding. Yet economic reforms in the country, initiated arguably at the behest of these very countries, that in order to accelerate economic growth developing countries must cut public spending on health infrastructure. This is however not a novel method of argumentation any more – we have heard similar logic being put forward in the pressure being put on developing countries to change consumption patterns in order to reduce the threat of 'global warming' while the global north can, with impunity, continue its unsustainable consumption pattern.

India's situation in terms of spending of health care is unique on two counts. At 6 per cent of GDP spent on health care, India spends more on health care in per cent terms than most developing countries. At the same time, at 21.7 per cent, public spending of the total expenditure on health care, India is one of the lowest in the world, both in actual terms as well as in percentage terms. Health spending in India is thus already heavily distorted in favour of the private sector. It should be understood that the extremely low level of public funding in India is not a new phenomenon that post dates the reforms process. In fact successive Five-Year Plans have shown a fall in percentage terms, in budget allocation for health care (Table 12).

There has been little effort towards sustained investments to build up health care infrastructure in the country. To be fair, periods of stagnation have been punctuated by sporadic efforts to enhance public health funding. Mention may be made in this context, of the National TB and Malaria programmes of the 1950s and 1960s and the primary health care programme in the late 1970s and early 1980s. In the case of all these programmes, much of the earlier gains were frittered away as the initial infrastructure created was not supported in later years by matching investment. In fact between 1985-86 to 1990-91 there was already a major slow down or decline in state expenditures on medical and public health. This was more glaring in the case of capital expenditure for the setting up of new infrastructure (Table 13).

These experiences have prompted some to suggest that health expenditure at enhanced levels cannot be sustained and hence alternative strategies need to be considered which do not look upon the state as the sole supporter of health programmes. It is sought to be argued that public funding is already low in most developing countries, and a formal role for the private sector, with the state acting as a regulator of the market for health care, will only work towards making the present system more efficient. Unfortunately, in the health 'market', those who need health care the most are those who are the least likely to be able to pay for it. The economic reforms in this country appear

TABLE 6: RURAL-URBAN DIFFERENTIALS IN HEALTH CARE SPENDING
(Average for 1990-91 to 1992-93)

	Urban		Rural	
	Rs Per Capita	Per Cent of Total Health Expenditure	Rs Per Capita	Per Cent of Total Health Expenditure
Punjab	140	51	43	37
Kerala	178	69	20	22
Tamil Nadu	119	66	15	16
West Bengal	139	67	13	17
Maharashtra	76	54	23	25
Gujarat	90	60	16	20
Andhra Pradesh	98	59	9	16
Madhya Pradesh	74	52	12	29

Source: Detailed Demand for Grants, 1992-93, respective states, quoted in Ravi Duggal, 'Health Expenditure Patterns in Selected Major States', *Radical Journal of Health*, Vol 1, 1995.

TABLE 7 : EXPENDITURE ON MINIMUM NEEDS PROGRAMME UNDER HEALTH SECTOR
(At constant 1990-91 prices)

(Rs lakh)

	1990-91	1991-92	1992-93	1994-95*	Per Cent Change (1990-91 to 1994-95)
Andhra Pradesh	648.35	478.07	601.77	498.82	-23.1
Assam	1127.25	1372.71	1294.16	1244.38	10.4
Bihar	2115.00	3098.32	2331.88	996.00**	-52.9
Gujarat	1044.77	1116.83	1192.00	1103.38	5.6
Haryana	390.68	437.89	665.83	598.58	53.2
Karnataka	1284.08	1974.15	2134.20	2270.61	76.8
Kerala	102.90	113.58	175.54	309.93	201.2
Madhya Pradesh	1538.35	1261.03	1807.17	1598.53	3.9
Maharashtra	3673.38	3649.39	2897.73	3248.19	-11.6
Orissa	792.98	565.52	688.12	730.70	-7.9
Punjab	671.50	1181.66	486.08	640.15	-4.7
Rajasthan	1123.48	1912.25	1630.07	2460.83	119.0
Tamil Nadu	1393.00	109.81	1955.94	1951.50	40.1
Uttar Pradesh	6169.53	2287.38	3176.28	3418.60	-44.6
West Bengal	1384.00	394.05	319.55	881.24	-36.3
All States	27121.59	24799.01	24986.63	24607.39	-9.3

* Anticipated; ** Outlay.

Source: *Rural Health Statistics of India*, December 1995, Rural Health Division, Directorate General of Health Services, Ministry of Health and Family Welfare, Government of India.

to be further compromising the ability of people to pay for health care. In fact today, after dowry, private expenditure on health care is the commonest cause for rural indebtedness.

The issue really is what is the minimum level of public health expenditure necessary to build the momentum for a health infrastructure that can be sustained with additional resources generated from private sources. While a ready formula for the same is not available, one has to fall back on the experiences and practices of the economies we are believedly trying to emulate – be it the Asian 'success stories' like South Korea, Taiwan or Malaysia or market economies in western Europe, North America or Japan. My observations of public spending on health in these countries show that public health expenditures in India do not approach anywhere near the levels in these countries. Even the World Bank is constrained to comment, "Adoption of the package (of minimum health interventions) in all developing countries would require a quadrupling of expenditures on public health ...There (in the poorest countries), paying for an essential package will require a combination of increased expenditures by governments, donor agencies, and patients and some reorientation of current public spending for health" [WDR 1993:11]. But the crux lies in mobilising the extra resources to quadruple spending on health. Except in sub-Saharan Africa, such aid accounts for, 1.5 per cent or less, of the total spending on health in developing countries. NGOs are dependent on either foreign donors or government funds, or act as a part of the private sector. User fees from patients account for less than 5 per cent of the total public health expenditure. Even optimistic estimates for the IDA-aided State Health Systems Development Project – underway in Karnataka, West Bengal and Punjab – put the possible recovery from user fees at 15-20 per cent of public health expenditure. A far cry indeed from the 'quadrupling' necessary for a 'minimum' package.

It should hence be obvious that international agencies like the World Bank, who have been instrumental in pushing adjustment policies in the third world, really have no answers regarding how health infrastructures are to be sustained after even the inadequate state support is further trimmed. Rhetoric regarding 'wasteful' government expenditures and the extolling of virtues of non-governmental organisations and the private sector are meant to obfuscate the central issue. Even the UNICEF is constrained to point out, "Its (the World Bank's) implication continues to be that markets can do little wrong and that all economic growth is necessarily to the good... government intervention in the economy, on the other hand is always regarded as guilty until proven innocent" [UNICEF 1993:34]. While the vision of an efficient private sector that will provide clean beds in hospitals, helpful hospital employees and prompt service is seductive, one cannot forget that for the vast majority of Indians this can at best remain a seductive dream. Such services come at a price that only a minuscule minority can afford. It is instructive to note that when plague hit Surat, it was the public health system that was left to provide succour while the private facilities folded up and disbarred plague victims. In the immediate context the alternative to poor public health facilities cannot be high-priced private facilities, but strategies to improve the public health infrastructure.

This is not to suggest that optimal use has been made of public health expenditure in the country before the reforms process. In fact, quite the contrary. Much of the blame for what is today being termed the "resurgence of communicable diseases" lies in strategies adopted well before the reforms programme in the country. These strategies relied on various centrally administered programmes (vertical programmes) for disease control and prevention. Such programmes included the national programmes on tuberculosis, malaria, leprosy, immunisation, diarrhoeal diseases, blindness and family planning. With no integration at the level of delivery, these programmes were insensitive to local conditions, unresponsive to local needs, highly bureaucratised and inefficient. These programmes were accountable to officials situated in the national and state capitals, and had little or no flexibility based on local conditions. Local populations were indifferent and in some cases hostile to such programmes, resulting in fair measure to the very poor utilisation of government health facilities in many areas.

The prime example of vertical programmes undermining the health care programme in the country has been the country's family planning programme. An assessment of the programme in its four and half decades of existence raises many interesting issues. Today acceptors of contraception constitute just 43 per cent of couples in the child-bearing age group. This, in spite of massive central funds being pumped into the programme. Even this is likely to be a major overestimation, linked to overreporting – a bane of the target-oriented approach – and to the fact that a large proportion of acceptors are older women who have undergone tubectomies. The programme can hardly be held responsible for the few success stories in population planning in the country – Kerala and Tamil Nadu. Kerala's success in achieving results comparable to countries in the developed world – *vis-a-vis* both demographic and health indicators – have been widely attributed to factors such as high minimum wages, land reforms, high literacy rates and access to universal health care. Much of Tamil Nadu's success in pegging down birth rates in recent years is being attributed to improved child survival due to the massive statewide feeding programme for undernourished children. Both experiences strengthen the maxim that 'development is the best contraceptive'.

Experiences within, as well as outside the country, shows that a reduction in population growth rates follow overall socio-economic development. Except in conditions of war and famine they seldom precede such development. Yet this has largely been ignored during our planning process, possibly

TABLE 9. ALL INDIA INFANT MORTALITY RATE

	Total	Rural	Urban
1981	110	119	62
1982	105	114	65
1983	105	114	66
1984	104	113	66
1985	97	107	59
1986	96	105	62
1987	95	104	61
1988	94	102	62
1989	91	98	58
1990	80	86	50
1991	80	87	53
1992	79	85	53
1993	74	82	45
1994	73	79	51

Note: Infant deaths below 1 year per 1,000 live births

Source: *Sample Registration Bulletin*, January, 1996, Registrar General.

TABLE 8 : NEW HEALTH INFRASTRUCTURE IN RURAL AREAS

	Subcentres		PHC		CHC	
	Target	Achievement	Target	Achievement	Target	Achievement
1990-91	–	648	1396	1469	281	159
1991-92	–	506	1021	269	272	120
1992-93	–	6	759	299	259	94
1993-94	–	199	640	147	164	32
1994-95	–	205	780	334	157	69

Note: According to government norms each subcentre, primary health centre (PHC) and community health centre (CMC) is supposed to cater to 3,000-5,000, 20,000-30,000 and 80,000-1,20,000 rural population respectively.

Source: *Rural Health Statistics of India*, December 1995, Rural Health Division, Directorate General of Health Services, Ministry of Health and Family Welfare, Government of India.

as it prevents our planners from blaming the country's tardy development rates on the pressures posed by population increase. As a result family planning strategies have tended to be paternalistic, prescriptive and coercive. Such a strategy has undermined the effectivity of the general health care infrastructure as well as the faith that women have in this infrastructure to address their real concerns. Most programmes, have tended to view women as assembly line appendages required to produce babies. Thus a woman's health becomes important only when she is pregnant or lactating. But in India 65 per cent of deaths in women are due to infection related causes and only 2.5 per cent of deaths are related to childbirth. Even among women in the reproductive age group only 12.5 per cent of deaths are due to childbirth associated causes

Attempts to integrate the vertical programmes recently within the primary health structure (since the 1980s) had, if possible, even more disastrous consequences. Public health experts have repeatedly argued in favour of integrating the vertical programmes within the primary health care structure to ensure better co-ordination and a more holistic approach to health care. However, the manner in which this integration was done, resulted in even greater chaos. The programmes were integrated without serious attempts to strengthen the primary health care network. Thus, almost overnight, the multipurpose worker at the sub-centre was saddled with responsibilities to look after a host of vertical programmes. As a result even the limited gains of some of the vertical programmes (viz, malaria, tuberculosis, etc) were frittered away. The situation was compounded by the fact that the sub-centres and primary health centres (PHCs) were woefully lacking in facilities and manpower to properly co-ordinate the integrated programmes. In 1995 49.97 per cent of sub-centres and 37.18 per cent of PHCs had no buildings of their own. Further, 5.21 per cent of PHCs had no doctors and 22.58 per cent of sub-centres were working without health workers

As a consequence, the greatest killers in 1996 are still familiar diseases like cholera, TB, malaria, kala azar, and worse of all hunger. In the case of malaria for example, from an estimated incidence of 75 million cases and 0.8 million deaths in 1947, the figures fell to 0.1 million cases and virtually no deaths by 1964. But by the early 1970s the disease was back in business again, with seven million cases reported in 1976. The incidence figures have been pegged down at roughly two million cases every year but what is alarming is the steady rise in the number of deaths due to malaria in the last few years. Today there are tribal pockets where over 50 per cent of people test positive for malaria. April 1995 saw outbreak of Falciparum malaria in Assam resulting in the loss of many lives. Large number of cases of malaria were also reported from Bihar, MP, Orissa, West Bengal and other states. Malaria epidemics are known to be associated with economic depression.

Similarly, kala azar virtually disappeared by the mid-1960s, but was back in epidemic form by 1977-78. In 1991, 77,100 cases were reported with an estimated 5,000-7,000 deaths. The experience with filaria has been even more disappointing, and the number of cases have shown a steady rising trend in spite of the National Filaria Control Programme. Deaths due to tuberculosis have remained steady at 3,00,000-5,00,000 per year. Gastrointestinal diseases associated with diarrhoea and vomiting has also shown similar trends. Cholera was one of the largest killers at the turn of the century. While the first two decades after independence saw a dramatic fall in the number of cases, today major metropolitan centres like Calcutta, Madras and Delhi, regularly report epidemics of cholera. Prevalence of worm infestation is estimated at about 70 per cent of the population and there are an estimated three lakh to five lakh cases of typhoid ever year. The outbreak of plague in 1994 in Beed and Surat, has brought into sharp focus the growing crisis of public health. It is evident that the top down strategy of vertical disease control programmes and the belated slipshod attempts to integrate them have failed to deliver. Disease surveillance has been a major casualty with the primary health care system ill prepared to undertake the task.

A major determinant of the morbidity and mortality load in the country is malnutrition. In India 63 per cent of children suffer from some form of malnutrition – this adds up to a staggering 75 million children, that is more than 40 per cent of the estimated 170 million children in the world suffering from malnutrition. Of these, 30 million suffer from severe malnutrition. Probably because the statistics are so staggering, we have developed a defence mechanism towards an unpleasant reality. While infant mortality

Table 11: Income and Health Spending in 34 Selected Countries

Country	GDP Per Capita	Per Cent of GDP Spent on Health	Per Cent of Public Share
Tanzania	100	4.7	68.1
Ethiopia	120	3.8	60.5
Bangladesh	220	3.2	43.8
Zaire	260	2.4	33.3
Nigeria	300	2.7	44.4
India	330	6.0	21.7
Kenya	340	4.3	62.8
Pakistan	400	3.4	52.9
Sudan	420	3.3	15.2
Egypt	610	2.6	38.5
Indonesia	610	2.0	35.0
Philippines	730	2.0	50.0
Morocco	1030	2 6	34.6
Syria	1160	2.1	19.0
Colombia	1260	4.0	45.0
Peru	1285	3.2	59.4
Thailand	1570	5.0	22.0
Turkey	1780	4.0	37.5
Algeria	1980	7.0	77.1
Iran	2170	2.6	57.7
South Africa	2560	5.6	57.1
Venezuela	2730	3.6	55 6
Argentina	2790	4.2	59.5
Brazil	2940	4.2	66.7
Mexico	3030	3.2	50.0
South Korea	6330	6.6	40 9
Spain	12450	6.6	78.8
United Kingdom	16550	6.1	85.2
Italy	18520	7.5	77.3
France	20380	8.9	74.2
Canada	20440	9.1	74.7
United States	22240	12.7	44.1
Germany	23650	8.0	72.5
Japan	26930	6.5	73.8

Note: Countries with population >20 million in 1991. Does not include Socialist countries and former Socialist countries of Eastern Europe. Figures for Myanmar, Zaire, Sudan and Afghanistan were not available.
Source: Calculated from data in *World Development Report, 1993*.

Table 10: Change in IMR (three yearly average) for Major States, 1983-1994

	1983-85	1986-88	1989-91	1992-94
Kerala	31	28 (-9 7)	18 (-35.7)	15 (-16.7)
Maharashtra	75	66 (-12.0)	59 (-10.6)	54 (-8.5)
Punjab	73	64 (-12.3)	59 (-7.8)	55 (-6.8)
Tamil Nadu	82	76 (-7.3)	62 (-18.4)	58 (-6.5)
West Bengal	80	70 (-12.5)	70 (0.0)	61 (-12.9)
Gujarat	103	98 (-4.9)	75 (-23.5)	63 (-16.0)
Andra Pradesh	79	81 (2.5)	74 (-8.6)	66 (-10.8)
Karnataka	71	74 (4.2)	76 (2.7)	68 (-10.5)
Haryana	92	87 (-5.4)	73 (-16.1)	69 (-5.5)
Bihar	100	100 (0.0)	79 (-21.0)	69 (-12.7)
Assam	101	104 (3.0)	82 (-21.2)	78 (-4.9)
Rajasthan	113	104 (-8.0)	86 (-17.3)	85 (-1.2)
Uttar Pradesh	152	128 (-15.8)	105 (-18.0)	93 (-11.4)
Madhya Pradesh	123	120 (-2.4)	115 (-4.2)	102 (-11.3)
Orissa	130	124 (-4.6)	122 (-1.6)	109 (-10.7)

Note: Figures in brackets indicate change of IMR over previous period.
Source: *Sample Registration Bulletin*, January 1996, Registrar General, India.

and under-five mortality rates are reported to be on the decline, these rates conceal the ability of the modern state, armed with the tools provided by modern science, to maintain a much larger number of people at a level of bare subsistence.

The UNICEF has developed a scale for measuring progress of nations in tackling malnutrition in children. By using economic and nutritional data from all nations, the percentage of child malnutrition that can be expected for any given economic level, is calculated. The difference between this expected level and the actual level represents each country's national performance gap [UNICEF 1994:11]. The comparative figures show that India has the largest negative performance gap among all countries in the world (Table 14). In fact south Asian countries fare particularly poorly with respect to this index. An explanation for this may be sought in the widespread prevalence of landlessness in the peasantry, which is quite unique to this region. A major concern of the reforms programme in the country was to reduce food subsidies. Within a year of the initiation of reforms per capita monthly consumption of cereals had come down for rural and urban areas from 14.1 kg and 10 8 kg respectively in 1990-91 to 13.5 kg and 10 7 kg respectively in 1992 [NSS 48th Round 1994]. The effect of this squeeze on food consumption is likely to have an over-arching effect on all areas of public health.

It is against this background that an assessment of the reforms in health care in the country needs to be undertaken. The reforms do not constitute a watershed in terms of reduction in allocations and expenditure on health. Trends, as discussed earlier, of declining health expenditures were discernible before the reforms were initiated. The reform years have only seen an acceleration of this process. Within this, some other trends can be detected. In the reform years, the fall in state expenditures have generally been more precipitate, thus increasing the importance of centrally run programmes. On the face of it, such an approach is consistent with prescriptions of the World Bank for the health sector, in countries implementing structural adjustment programmes. The Bank, as mentioned earlier, favours implementation of a minimum package targeted at vulnerable sections – part of its safety net strategy. However in practice, the squeeze on states' ability to commit resources to health results in programmes losing steam after the initial phase of central funding. States, being starved of resources, are eager to garner central funds. But once these funds are not forthcoming and the programmes have to be sustained by allocation of non-plan funds from state budgets, such programmes are allowed to decay.

The period of reforms, however, does mark a watershed in one regard. The ideological barrage associated with the reforms package served to confer legitimacy to the virtues of the private sector and the market. This legitimisation of the state's withdrawal from infrastructural areas, including infrastructure in social sectors, is a signal contribution of the reforms era. In the process, the supposed inability of the state to sustain funding of medical care and public health seems to have gained acceptance. The new found legitimacy for the private sector in health care can now be openly 'showcased' as can the concept of 'user fees' for government run health facilities. It may appear strange that a greater role is being sought for the private sector in India when, as explained earlier, almost 80 per cent of health care expenditure is already accounted for by the private sector. Ambulatory care (that is care not requiring hospital admission) is already overwhelmingly catered to by the private sector. The public sector is today a major contributor only in case of hospital care and in preventive and promotive public health measures. Even in the case of hospitalised cases, an estimated 40 per cent are admitted to private facilities [Baru 1994]. The belief that it is possible to regulate the private sector and thereby regulate the 'health market' to provide efficient services seems to be grossly misplaced. The private health sector is chaotic and largely unregulated today. In rural areas it is comprised of untrained quacks and faith healers. It is indeed strange that the same government which has been accused of not being able to run its public health facilities efficiently, is being expected to regulate this private sector.

It is this legitimisation of the virtues of the logic of free market which has allowed the introduction of an IDA-aided project in three major states in the country without any significant debate (except to an extent in Punjab). The State Health Systems Development Project is being implemented in the states of Punjab, Karnataka and West Bengal. The five year project involves a loan of $342.2 million (Rs 540 crore) from the IDA. The project is significant because it is the first systematic attempt at putting into practice the twin prescriptions of involving the private sector (or NGOs) in primary health care and of levying 'user fees' at government run health facilities.

Table 13: Rates of Growth in Real Per Capita Government Expenditures on Medical and Public Health (1985-86 to 1990-91)

	Revenue Expenditure	Capital Expenditure	Total Expenditure
Andhra Pradesh	-0.40	-19.23	-0.83
Assam	6.31	1.27	5.65
Bihar	4 38	18.30	-0.02
Gujarat	-0.45	-7.98	-1.44
Haryana	-4 21	-8.78	-4.39
Karnataka	-1.67	-22 39	-2.61
Kerala	7.62	-32.94	2.64
Madhya Pradesh	-0.03	-12.26	-0.43
Maharashtra	-3.59	3 18	-3.38
Orissa	-1.08	-0.20	-0.87
Punjab	3 68	-20.70	2.77
Rajasthan	3 90	-4.95	1.38
Tamil Nadu	4 50	-2.73	1.63
Uttar Pradesh	5.75	-5 21	5.15
West Bengal	3 50	-18.64	3.83

Source. Budget Documents of respective states quoted in K Seeta Prabhu, 'World Development Report 1993: Structural Adjustment and the Health Sector in India', *Social Scientist*, Nos 9-12, Vol 22, September-December 1994.

Table 14 Child Nutrition Prevalence

	Actual Prevalence of Malnutrition in Children Below 5 (Per Cent)	Expected (Per Cent)	National Performance Gap (NPG)
Uganda	23	38	+15
Tanzania	29	43	+14
Egypt	9	22	+13
Paraguay	4	15	+11
Bolivia	13	22	+9
Mongolia	12	20	+8
Sierra Leone	29	37	+8
Nigeria	36	30	-6
Vietnam	42	33	-9
Pakistan	40	27	-13
Philippines	34	20	-14
Bangladesh	66	34	-32
India	63	30	-33

Source. *The Progress of Nations*, 1994, UNICEF.

Table 12 : Central Plan Allocation on Medical Care and Public Health

	Total Outlay	Allocation on Health	Investment in Health as Per Cent of Total
First Plan (1951-52 to 1955-56)	1960 00	65 20	3.30
Second Plan (1956-57 to 1960-61)	4672.00	140.00	3.00
Third Plan (1961-62 to 1965-66)	8576.50	225.90	2 60
Fourth Plan (1969-70 to 1973-74)	13778.80	335 50	2 10
Fifth Plan (1974-75 to 1978-79)	39426.20	760.80	1 90
Sixth Plan (1980-81 to 1984-85)	97500.00	1821.10	1.86
Seventh Plan (1985-86 to 1989-90)	180000.00	3392.89	1 88
Eighth Plan (1992-97)	434100.00	7575.90	1.75

Source: Various budget documents and *Economic Survey, 1995-96*, government of India.

The objectives of the IDA-aided project include (i) strengthening management and implementation capacity of institutions; (ii) developing surveillance capacity for major communicable diseases; (iii) upgrading PHCs and improving access in select areas and by vulnerable sections; (iv) upgrading community, sub-divisional and district hospitals; (v) upgrading effectiveness of clinical and support services and (vi) improving referral mechanisms. All the stated objectives are laudable and would merit inclusion in the general objectives of the primary health care system in the country. The important caveat in the project is that these objectives will be linked to levying of user fees and contracting out chunks of the primary health care network to NGOs and private institutions The project seeks to increase collection of user fees to 15-20 per cent of total recurring costs from the present level of less than 4 per cent. User fees are sought to be levied for those who do not qualify under a predetermined exclusion criterion in each state. The projected foreign exchange component of expenditures to be incurred include 15 per cent for civil works, 20 per cent for professional services, 10 per cent on furniture, 60 per cent on equipment, 12 per cent on locally manufactured vehicles, 90 per cent on imported vehicles, 20 per cent on laboratory supplies and 50 per cent on medicines.

The IDA project is an important landmark as it is a serious attempt at implementing many of the World Bank's prescriptions for health care in third world countries – levying user fees (a stated World Bank position since 1987), involvement of the private sector, targeting of services, reduction in permanent manpower, etc. In other words the construction of an orderly withdrawal route, for the government, from involvement in public health. Over the years, systematic neglect of government run facilities have sowed the seeds of discontent about these in the minds of the public. Now to test the waters, to gauge whether the discontent is deep enough to accept the government's withdrawal from the health sector. As a test case, a Rs 540 crore loan over five years – less than 5 per cent yearly support to the existing state budgets – is good investment for international funding agencies. The project will merit close scrutiny in the ensuing years in regard to its ability to qualitatively change the direction of health care funding and management in the country. In this respect the project's importance far outstrips the amount of loan involved

IV
Reforms and Pharmaceuticals Sector

The pharmaceuticals sector in India had been one of the success stories in development of an indigenous, self-reliant industry. It is a sector that made impressive progress in the 1970s and 1980s, largely as a consequence of focused policy level interventions. The progress in this period is all the more impressive given the state of the industry after independence.

In 1947 the Indian market was fully controlled by MNCs. In the 1950s, drug prices in India were one of the highest in the world – a fact commented upon by the Kefauver Committee (a US Senate Committee set up to study the working of pharmaceutical companies), which said, "As a matter of fact, in drugs generally India ranks among the highest priced nations in the world, a case of an inverse relationship between per capita income and the level of drug prices" [Majumdar 1986]. India was denied access to technologies for production of vital drugs. Antibiotic production finally started indegenously when Hindustan Antibiotics was set up with help from the World Health Organisation (WHO) and the UNICEF in 1954. Subsequently, IDPL was set up with the help of Soviet technology in 1961.

With the setting up of the Indian public sector, antibiotic prices fell by as much as 60 to 70 per cent. MNCs, in order to survive in the Indian market, slashed their prices and for the first time set up basic production facilities. In the 1960s, the Indian private sector set up substantial capacities for indigenous production of bulk drugs. However, the former, in view of their superior marketing network, managed to keep a stranglehold on the Indian market.

In 1974 the Indian government set up the Committee on the Drugs and Pharmaceuticals Industry (popularly known as the Hathi Committee). The Committee's recommendations were seen by many as a landmark for drug manufacture in the third world. Countries like Bangladesh and Sri Lanka were to borrow heavily from it. The Drug Policy of 1978 and the Drug Price Control Order (DPCO) 1979, were broadly based on recommendations of the Hathi Committee. For the first time, comprehensive and graded price control mechanism was introduced in the drug industry. The philosophy behind this graded system of price control was to make more essential drugs cheaper. The 1978 Policy also reserved major areas in the market for different sections in the Indian sector – both private and public. These measures led to a rapid growth of the Indian sector, which soon gained the capability of producing most essential drugs. In 1980, the UNIDO identified India as one of the countries with capacity to produce all essential drugs indegenously.

The foreign sector continued to produce principally in low technology areas and increased production of inessential drugs. They showed little inclination towards increasing bulk drug production while increasing their production of formulations enormously. In essence they continued to play the role of trading centres. During this period, the public sector came to be increasingly marginalised.

But in 1986 the government, in a new policy, reversed many positive features of the 1978 Policy. The span of price controls were reduced, greater profitability was allowed, imports were liberalised and various production control measures were scrapped.

In the last two decades, while the Indian drug industry has grown considerably, a disturbing trend is discernible. Most manufacturers are vying for the up-market section of the Indian consumer who can pay heavily to 'buy' health care. Production of expensive drugs outstrip demand while less expensive drugs are in short supply (Table 15). Thus the indifference shown by companies towards production of low-cost essential drugs. In doing so the industry is also in danger of falling into a self-destructive loop where 1,000 manufacturers fight for the market for drugs among 5 per cent of the population who can pay. This will act

TABLE 16 BULK DRUGS UNDER PRICE CONTROL

Policy	No of Drugs under Price Control
1978	378
1986	166
1994	73

Source: Drug Policy Documents of the relevant years.

TABLE 15: DIFFERENCES IN PRODUCTION BETWEEN EXPENSIVE AND INEXPENSIVE DRUGS

	Inexpensive Drugs				Expensive Drugs		
Drug	Unit	Demand	Production	Drug	Unit	Demand	Production
Antibiotics							
Penicillin	MMU	330.00	304.40	Cephalexin	T	121.00	158.66
Chloramphenicol	T	200.00	80.84	Cloxacillin	T	64.00	127.47
Doxycycline	T	13.00	1.89	Amoxycillin	T	201.00	375.04
Pain Killers							
Aspirin	T	2042.00	1624.37	Ibuprofen	T	241.00	736.64
Anti-Leprosy							
Dapsone	T	64.00	12.00	Clofazimine	T	3.20	6.11

Source: Government of India, ***Annual Report 1994-95***, Ministry of Chemicals and Fertilisers.

as a major constraint to further development of the industry.

In 1994 the government announced its new policy on drugs and pharmaceuticals. While continuing the trend set in 1986, the government reversed all positive features of the 1978 policy which had helped to built a self-reliant industry, the best of its kind in the third world, and comparable to those in many developed countries. In the new policy the government granted major concessions to the industry in terms of reduced price and production controls. They included the slashing down of the number of drugs under price control (Table 16) and increase in returns allowed for bulk drug manufacture. Domestic treatment of companies with 51 per cent foreign equity participation is now assured. Industrial licensing is no more required for manufacture of pharmaceutical formulations. Controls on use of imported bulk drugs have also been abolished (Annual Report, 1994-95, Ministry of Chemicals and Fertilisers).

The new policy has reduced the number of drugs reserved for the public sector have been reduced to only five (vitamin B1, vitamin B2, folic acid, tetracycline and oxytetracycline). Today when the global pharmaceutical industry is poised for a new revolution with the help of bio-technology, only the public sector has the capacity to compete with MNCs and ensure a self-reliant growth. No company in the private sector has either the inclination or the will to make the kind of investments necessary to keep pace with technological developments in frontier areas.

The basic plea from the industry (to which the new policy has reacted positively), is that the drug industry should be decontrolled – both with regard to production and pricing. However, the Industry's claims that their profitability had been going down due to excessive controls is not borne out by facts. Profits as well as turnover of drug companies have shown a large increase in the period just prior to the announcement of the new policy (Table 17).

The underlying rationale of the 1994 policy is in line with the free market ethos of the reform process in the country. But to attempt to treat the drug industry like any other consumer goods industry, is tantamount to abandoning all concerns for the health of the people. A study of the production pattern of monitored bulk drugs shows that larger companies are not interested in producing bulk drugs, but rather prefer to act as mere traders and middlemen by concentrating on the formulations market. In such a situation there can be no justification in liberalising production controls, and in fact more stringent production controls are called for.

The market forces logic is even less applicable to the pharmaceutical industry

TABLE 17: GROWTH IN SALES AND PROFITS OF TOP DRUG COMPANIES

(Rs crore)

Company	Sales	Per Cent Change	Profit	Per Cent Change	Per Cent Dividend
Total	7028	25	605	46	
Ranbaxy	688	22	79	71	40
Glaxo	551	28	32	49	27
Hoechst	351	23	32	136	25
Sandoz	290	1	22	3	25
Alembic	262	56	5	1	
Cipla	244	24	24	21	32
Torrent	229	39	25	54	30
Ambalal Sarabhai	220	7	11	783	
Pfizer	214	25	20	86	30
Procter and Gamble	206	41	-17		
Dr Reddy's	175	31	33	23	30
Burroughs Wellcome	169	20	10	61	22.5
Kopran	159	18	18	59	
Boots	154	18	16	23	38
Gordon Herbert	142	188	4	101	20
IPCA Labs	140	22	15	49	25
Parke Davis	137	7	17	13	35
Wockhardt	136	38	22	46	
Smithkline	123	-15	14	-25	24
E Merck	121	2	9	85	15
Nicholas	108	19	22	38	22.5
T T K Pharma	103	32	6	48	
Unichem	103	11	5	76	60
Lyka Labs	103	20	5	39	

Note : Per cent change calculated against previous year
Source : *The Economic Times*, August 22, 1994

TABLE 18: PRICE INCREASE OF DRUGS

(In Rs)

Drug	Dose	Price before New Drug Policy	Price after New Drug Policy	Per Cent increase
ANTACIDS				
Alludrox Gel	350 ml	13 49	28 93	114.46
Digene Gel	210 ml	11 91	16 55	39.0
Polycrol Forte Ggl	400 ml	21 30	33 50	57.3
LAXATIVES				
Agarol	400 ml	40 76	61 80	51.6
Cremaffin	210 ml	20 25	23 10	14.1
Dulcolax	100 x 5 mg	49 50	65 00	31.3
CARDIOVASCULAR DRUGS				
Lanoxin	10 tabs	1 95	4.00	105.13
Inderal	10 x 40 mg	6 87	12 40	80 5
Isoptin	100 x 40 mg	56 00	63.30	13.0
Norpace	10 x 100 mg	27 40	37.74	37.7
ANTI COAGULANT				
Acitrom	10 x 4 mg	5.53	39.49	614 1
HORMONAL				
Ovral	21	16 56	18.50	11 7
ANTIBIOTICS				
Althrocin	10 x 250 mg	26 66	35.69	33.9
Campicillin	10 x 250 mg	20.40	31.50	54.4
Doxt	4 x 100 mg	9.07	10.00	10 3
Paraxin (Chloromycetin)	10 x 250 mg	10 36	18 00	73.8
Novamox	12 x 250 mg	26.71	41.60	55 8
Septran	10 x 480 mg	8.56	8 73	2.0
ANTI-ASTHMATICS				
Beclate Inhaler		75.00	100.00	33.3
ANTI MALARIA				
Nivaquine	10 x 200 mg	5 96	9.31	56.2
IRON SUPPLEMENT				
Hematrine	40 caps	16.16	40.00	147.52
ANTI T.B.				
Myambutol	10 tabs	5.92	12.64	113.51

Source : Calculated from different issues of *Monthly Index of Medical Specialities (MIMS)*

than other sectors. Unlike consumer goods, drugs are not purchased by the consumer on the basis of his choice or preference. They are purchased/ consumed on the advice of the medical profession. The drug companies have built a market for their drugs through their extensive marketing network. The consumers have little or no choice in such a 'rigged' market and are forced to buy anything and everything that doctors are 'induced' to prescribe by the 'friendly neighborhood' medical representative. This is surely not the best climate for market forces to stabilise prices.

The government's pious hope that market forces will work to keep prices of drugs stable has been belied and the country has witnessed a spiralling rise in drug prices since the 1994 policy (Table 18). What is possibly even more important is the manner in which the list of price-controlled drugs has been worked out. In the Drug Price Control Order (DPCO) of 1979 essentiality was the basic criterion used to decide upon the categorisation of drugs, and more essential drugs were kept under price control. The Kelkar Committee, which formulated the list of drugs for DPCO 1987, used essentiality as only one of the criteria Other aspects like turnover of drugs, monopoly within a certain sector, etc, were also taken cognizance of. In the new policy, essentiality is not a consideration at all and reliance has been placed only on the turnover of drugs to determine which drugs are to be price-controlled. Obviously, the health needs have not been addressed at all by the policy

The situation is compounded by the fact that there are an estimated 60,000 to 80,000 brands of various drugs available in the Indian market. In this situation of extreme anarchy the task of an already overstretched Drug Control Authority becomes almost impossible to cope with. A majority of the estimated 80,000 products in the market are either hazardous, or irrational or useless. There is almost no source of regular unbiased, authentic information on drugs available in the country. A bulk of medical practitioners depend on promotional material supplied by pharmaceutical companies. In this context a WHO report says, "There is an inherent conflict of interest between the legitimate business goals of manufacturers and the social, medical and economic needs of the providers and the public to select and use drugs in the most rational way" [WHO 1993].

The need to increase drug production to Rs 15,000 crore by 2000 AD from the present Rs 9000 crore is repeatedly stressed both by the industry and the government. But no thought seems to be given to what kind of drugs this large volume would include. In the absence of a clear-cut policy to ensure and channelise drug production, there is nothing to prevent a major share of the production from being diverted into non-essential areas. The new policy has no ideas to offer in this regard and only talks of liberalisation as the answer. More liberalisation may well mean licence to produce more hazardous, irrational and inessential drugs.

After having built a self-reliant industry much of the gains are today sought to be frittered away. In recent years import dependence in the industry has grown (Table 19)

The excess of exports over imports is an illusion. Formulation production is a relatively much simpler exercise and even countries like Bangladesh are relatively self-sufficient in this area. Self-reliance in bulk drug production is actually the true indicator of self-reliant development of the drug industry.

The government would do well to go back to the Hathi Committee report of 1975 detailing the sins of omission and commission of the foreign sector in the drug industry, when it is set to roll out the red carpet for MNCs. Nothing has changed since then, in fact the situation has worsened. The foreign sector are the worst offenders when it comes to production of irrational and hazardous drugs and non-production of essential drugs. In fact the small scale sector produces more bulk drugs than the foreign sector. The measures in the 1978 Drug Policy restricting this sector, is the single most important factor responsible for the growth of the Indian drug industry in general and the Indian sector in particular. The foreign sector has never in the past brought in new technology and will not do so in the future. Allowing concessions to them (in the form of national treatment to companies with 51 per cent foreign equity) will only result in emasculation of the Indian drug industry. Table 20 shows the comparative contribution of different sectors in different therapeutic groups. It clearly shows the reluctance of MNCs to produce drugs in areas of importance for the health needs of the country.

Steps to encourage R and D in the drug industry, mentioned in the new policy, are welcome. But, pronouncements cannot stimulate R and D efforts in a climate where the industry spends a mere 1-2 per cent of its turnover on R and D and most of the R and D done has very little innovative content. Moreover, the strength of the R and D base in the drug industry, for whatever it is worth, lies in the area of process technologies.

If the Indian Patent Act is changed in line with the GATT agreement, in one sweep this base will become meaningless. Today the industry is not, by and large in a position to invest in development of new product technologies. Investment required to develop a new product with definite therapeutic advantage is far in excess of the total turnover of most Indian companies. Compare the present R and D expenditure of about Rs 100 crore annually to the estimated cost of development of a new drug, which is about

TABLE 19. PRODUCTION, IMPORTS AND EXPORTS OF PHARMACEUTICALS

(In Rs crore)

	1991-92	1992-93	1993-94
Bulk Drug			
Production	900	1150	1320
Formulations			
Production	4800	6000	6900
Exports	1231	1410	1781
Imports	807	1100	1440

Source : Financial Express, August 31 1995.

TABLE 20 · SHARE OF MNCs IN DIFFERENT THERAPEUTIC GROUPS

(In Rs crore)

Therapeutic Group	Total Market	Share of Top 200 Brands	Share of MNCs	Per Cent Share of MNCs to share of Top 200 Brands
Vitamins	345.8	191 0	184 5	96 60
Steroids	212.3	102.1	94 6	92.66
Nutrients and Minerals	163.6	59.5	52.4	88.06
Cough and Cold and Anti Allergic	377.3	160.7	129.2	80.40
Anti-Inflam/Analg and Anti Spasmodic	413.4	226.6	150.0	66.18
Rubs and Balms	48.0	41.1	26.6	64.96
Antacid etc	259.9	143.1	84.5	59 04
Anti Anaemic	145.4	61.6	29.0	47.03
Diabetes, CVS, Epilepsy, etc	422.6	134.9	56.3	41.77
Anti Asthmatic	123.5	27.6	11.1	40.22
Antibacterials	1254.2	761.8	224.9	29.53
Anti Parasitic/ Anti Diarrhoeal	236.9	67.6	17.4	25.71
Anti T B	177.7	104.5	18.6	17.84

Source : ORG retail survey of top 200 brands, December 1994.

$ 300 million or roughly Rs 950 crore. In fact, anticipating change in the Patent Act many MNCs have closed down their R and D facilities in India. These include the facilities run by Ciba Geigy, Boots, Hoechst and Rhone Poulenc. A change in the Patents Act will greatly help MNCs, who control new product technologies, to take over the Indian market and rig drug prices and drug availability at will.

Today, older drugs which have been off patents for some time are costlier than in many developed countries. Only newer drugs, which are still patent-protected are comparatively much cheaper in India. Change in the Indian Patents Act of 1970 would also deny Indian consumers the benefits of new drugs produced in India at affordable prices.[2]

A major section of Indian industry in the pharmaceuticals sector had opposed a change in the Indian Patents Act of 1970. But today some have changed track and many seem ready to follow suit. They see an opportunity in tying up with MNCs as junior partners to target the huge generics market in the US. While this may provide some immediate benefits to a few Indian companies, in the long run their very survival is at stake as the 'uncaged' MNCs prepare to take over the Indian market once again.

Contrary to the reforms ideology the market does not regulate prices of drugs, as demand primarily depends on prescription habits of doctors, disease profiles, drug resistance, etc. Hence the market cannot ever be a proper mediator of prices of drugs. The oligopolistic nature of the industry, where few companies have monopoly within various therapeutic groups, makes the operation of the market even more infructuous. The present policy of abandoning price and production controls has already led to unjustified rise in prices. The concessions to the foreign sector mark a dangerous shift in our policy framework. These concessions and a possible change in the Indian Patents Act will return the drug industry to the situation prevailing in the 1950s. A situation where MNCs can earn super profits due to their control over technology and brand images.

Notes

1 In this regard the UNICEF in *The Progress of Indian States, 1995*, p 3, is constrained to comment, "Whereas effective policy design requires good data, the Indian data-base on children has several limitations. Basic statistics on several quantifiable indicators relating to morbidity, education, nutritional well-being and so on, are not systematically collected and presented even at the state level. ... However, we believe that in the Indian context, with each year that goes by, this weakness reflects less and less a lack of capacity and more a lack of priority.

2 For a more detailed discussion on differences in prices of new and older drugs in India refer to, Sen Gupta Amit, 'Do Drugs Cost Less in India', *Economic and Political Weekly*, January 27, 1996.

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DISCUSSION

On Anthropological Discourse

Carol Upadhya

I AM writing in response to Meenakshi Thapan's reaction (*EPW*, September 21) to my review of two recent ethnographic texts on rural women in north India (*EPW*, July 20). My intention in that review was not to attack anthropology in general, but to raise questions about certain trends within (mainly American) cultural anthropology through a critique of recent work on India. Since Thapan appears to have misunderstood the basis of this critique, I would like to clarify my position by situating it in the context of recent debates, which I describe briefly (of course, at the risk of over-simplifying the issues and various positions taken). Because it is not possible to spell out any of these arguments in a brief note, I refer below to a number of writers who have taken a similar position.

In response to Thapan's accusation that I have not read Crapanzano, Rabinow or Geertz, I can only say that to know is not necessarily to love. She seems to think that anthropology has been entirely consumed by the 'postmodern' wave represented by these writers (in this context postmodernism itself is a debatable term, but since it has come into common usage to refer to a particular cluster of positions, it seems best not to quibble over terminology). Therefore I would first like to point out that by no means all anthropologists subscribe to either the position articulated by Fischer, Clifford et al, nor to the related subfield of interpretive anthropology whose central figure is Geertz (and it is important to distinguish between the two). Quite to the contrary, postmodernism has given rise to bitter and divisive debates within American anthropology, as it has in other disciplines. Critiques have come mainly from two directions: from traditionalists who believe that cultural anthropology is or should be an empirical science of some sort, and from what may be loosely described as a political economy position. It is primarily from the latter perspective that my own objections arise, and it is mainly the debate between political economy and postmodernism to which I refer below. For the sake of brevity, I leave out the important feminist interventions on these issues.

The postmodern move in anthropology began with the deconstruction of ethnographic writing, which highlighted the literary devises that are used in ethnographic texts to establish the authority of the ethnographer and to obscure his own voice [Clifford and Marcus 1990; Marcus and Fisher 1986]. The critique, which problematised the interpretation and representation of 'other' cultures, led to experimentation with ethnographic writing aimed at conveying more authentically the multiplicity of discourses found in the field, for example, by representing informants' voices with minimal mediation or by making them joint authors. This in turn gave rise to the stress on 'intersubjectivity', 'multivocality', the dialogical production of knowledge, reflexivity, and so on, which Thapan identifies as the crux of the ethnographic method. According to this position, because anthropological knowledge is produced intersubjectively through a dialogical process between the anthropologist and her informants, there can never be one 'true' knowledge but only numerous 'partial' or 'situated knowledges' (which nonetheless contribute to a "deeper understanding of the whole").

But in what way does this position answer to the problem of the 'construction' of the subjects? As some of the postmodern writers themselves acknowledge, however dialogically and reflexively the anthropologist may write, she remains the author [Rabinow 1990]. Therefore, one needs to ask whose voices really are being projected and to interrogate the way in which the subjects are portrayed in such writing, rather than simply accept the account as someone's 'partial knowledge'. After all, one of the central contributions of the postmodern critique was to show that the ethnographic text is both *constituted* and *constitutive* rather than a simple description and analysis of social reality. In the wake of this deconstruction of ethnographic writing, it is surprising that anyone (especially someone who appears to accept those arguments) could still describe the ethnographer as a "faithful recorder and interpreter ... of social reality". While of course the ethnographer does not 'construct' her subjects in real life, she certainly does so in the text. Nor is this a trivial matter, for ethnographies sometimes do have real life effects in 'producing' their subjects, as for example when they become sources of knowledge on 'traditional' practices [Friedman 1992; Hanson 1989]. In this context (and given the well known relationship between anthropological discourse and colonialism), is there any reason to believe that academic discourses being produced today have no political reverberations beyond the academy [Escobar 1995]?

Another reason why anthropologists now speak of 'dialogics' and often subject their writing to scrutiny by their informants is that the ethical dilemmas of doing fieldwork are increasing day by day: anthropology's subjects today are often capable of reading what is written about them and of writing back, even to the extent of bringing a lawsuit against the anthropologist [Lee and Ackerman 1994]. But does involving the informants more explicitly in the research or writing process mean that the ethnographic text is produced through a participatory process among equals? Except when the anthropologist, because of her expertise, has been employed by people to perform a specific task (for example, native Americans sometimes hire anthropologists to work on land claim cases), the entire ethnographic exercise is conceived and carried out *by* and *for* the anthropologist, and its terms of discourse are therefore determined outside of the field situation itself. Although the subjects of course do influence the kind of information the ethnographer is able to acquire, the questions she is asking and the perspective she brings to her work are guided by her own knowledge quest, while the final result, to be acceptable within the academic community, must be couched in a particular kind of language (including, for example, the invocation of concepts such as polyphony, dialogics, resistance, etc), which in turn is determined by various political considerations (academic and otherwise). Although the postmodernists make much of reflexivity, most do not take full account of the power asymmetry between researcher and subjects in real life, as well as that between the knowledge that is produced in the academy and the local knowledges of the subjects.

Thus, as many critics have pointed out, the problem of ethnographic authority has not at all been solved by new methods of writing which attempt to 'de-centre' the ethnographer [Geertz 1988; D Scott 1992]. Rather, these can be seen as tactics which have been deployed to reconstitute the authority of the ethnographer by mystifying the actual processes of knowledge production during fieldwork and appropriating the voices of the subjects [Fox 1991b; Sangren 1988]. Moreover, in spite of its claims to epistemological 'sophistication' the advocates of postmodern ethnography appear to be quite naive about the way in which the narratives collected by the anthropologist are produced. What people are able to say about their own lives is circumscribed by their subject positions within a concrete social formation, which they are not free to determine. The postmodern critique, while highlighting the issue of power in the making of ethnographic *texts*, for the most part has failed to interrogate the political bases of the multivocality found in the 'field' [Sangren 1988, Scholte 1987, Ulin 1991]. Yet it is the power relations

among those who are producing this intersubjective knowledge (including the anthropologist) that need to be understood if an ethnography is to be truly 'reflexive'.

It was in this context that I made a remark in my review, which Thapan has challenged, about the knowledge that is produced by activists as opposed to academics. An activist or an anthropologist who is politically involved in some way with the people she studies, and whose research is therefore guided to some extent by the people's own expressed interests and desires, is starting from a different subject position than is an academically oriented anthropologist, and therefore produces a different kind of knowledge. But I would go further to argue that this knowledge is not merely different but better: the engaged researcher is more likely to produce a culturally authentic interpretation of the lives and consciousness of the people, to be sensitive to the different discourses produced, and to be able to integrate this understanding into a 'multivocal' analysis which takes into account not only the various 'voices' involved but also their positions within the larger social or political situation [Escobar 1992, Nash 1992]. But while advocating engagement in research, I would not adopt the mainstream feminist strategy, cited by Thapan, of identification with the subjects on the basis of their common oppression as women with the aim of 'giving voice to the voiceless'. This position has long since been criticised by radical black and third world feminists who argue that the former appropriate the lives of poor and non-white women and project a spurious solidarity with them to further their own projects [Caplan 1994].

Thapan objects to my statement that the anthropological tradition views people as "automatons who only reproduce their traditional cultures". Here I was of course referring to the dominant theoretical paradigms which held sway prior to the 1970s or so and not to present-day anthropology, and in writing this I was trying to suggest, perhaps too elliptically, that the practice of anthropology is circumscribed by what came before. The earlier dominant theoretical systems were notoriously empty of concepts of conflict, agency, or power, and their objects of study were cultural or social systems rather than social action. It was precisely because of these shortcomings that both agency and history became central to the theoretical debates of the late 1970s and 1980s [Ortner 1984]. Perhaps because of this background, 'agency' as used by anthropologists tends to be located at the level of the individual who acts against a given 'structure', and it is usually conceptualised in its most limited sense as conscious, intentional action. Because most cultural anthropologists remain concerned with the micro-processes of social life, their recent discovery of agency and history ironically has not resulted in the development of a concept of historical agency.

Another recent trend in anthropology to which I alluded critically in my review was the postmodern version of the culture concept. The older view of culture as a unified and bounded system of symbols and meanings has been replaced by a concept of culture as a multiplicity of discourses which are constantly being contested and negotiated – a formulation that has been nicely debunked by Friedman (1992:852) – as coming from modernist identity spaces dominant in the metropolitan countries: "Culture is supremely negotiable for professional culture experts, but for those whose identity depends upon a particular configuration this is not the case. Identity is not negotiable. Otherwise, it has no existence". In addition, the conventional idea that a common culture or value system is the cement of social groups has been replaced by a Foucaultian notion of power. While these critical moves have been positive to the extent that they have exposed the weaknesses of standard social theory, the overall outcome has been somewhat less so. The upshot has been a 'discursive turn' in cultural anthropology, or what David Scott (1992) calls an 'inflation of culture': an overriding concern with representations, discourses and texts (and with culture as text), the goal being to discover the multivarious ways in which people understand and represent their worlds. Of course, anthropology has always dealt with such questions; the difference now is that there is hardly any attempt to relate cultural forms to anything else, nor to investigate their historical bases. Because social life is seen as discursively constructed, the task of the anthropologist is to deconstruct received categories of social analysis (gender, class, politics) and to explore how people 'construct' their cultures or have their identities constructed for them (usually by an amorphous Foucaultian 'power').

The recent spate of 'resistance' studies partakes of these theoretical tendencies in cultural anthropology. In my review I was not questioning the value of studying relations of domination and modes of resistance *per se*, as Thapan suggests, but was trying to point out that there is a real problem with the ways in which these concepts are being utilised in the recent literature. Although Thapan refers in the same breath to a diverse group of writers who have employed the concept of resistance, there is a very big difference between this recent genre and the earlier work which is often cited: that of Gramsci, Raymond Williams and the British cultural studies school, and social historians such as E P Thompson and Genovese, all of whom analysed in great detail (but in different ways) the complexity of cultural hegemony and resistance as *historical* processes. No doubt, several excellent studies of resistance have been produced, including by anthropological, but I would not include among them most of the anthropological literature in which resistance is located mainly in the realm of discourse, ritual and cultural traditions.

The shortcomings of resistance studies can be traced to their two main theoretical sources: Foucault and James Scott. Because the concept of power employed in 'new age cultural anthropology' [Knauft 1994] is derived from Foucault, it is treated mainly as a discursive or linguistic category, divorced from the social processes or institutions which produce it as well as from the people (individual or collective) who wield it. As many critics have pointed out, there is no room here for agency: the subject is produced by power, not vice versa, and in fact power itself assumes the status of a subject [Sangren 1995: 9]. Some writers have attempted to recover the subject by searching for sites of resistance, but the result in most cases has been an equally disembodied and mystical notion of resistance as power's 'other' [Ahmad 1991, Sangren 1995]. In this search, many have turned to the work of James Scott (1985, 1990), who locates resistance in its 'everyday' and less obvious forms: speech, expressive traditions, small demonstrations of defiance – the 'hidden transcripts' which the oppressed always produce in opposition to the public discourses of power. But instead of engaging in a concrete analysis of the class or political order through which relations of domination are produced, Scott (1990) constructs two reified mega-categories, the 'subordinate' and the 'dominant', which appear to be the same everywhere and at all times [Brass 1991; Ortner 1995].

Anthropological studies which draw on these works and locate resistance in cultural expressions of dissension or 'alternative discourses' have been widely attacked for their romanticism and for collapsing together different kinds of resistance. By interpreting all manner of things as resistance, from songs to petty theft, there is an inclination to view systems of power as ineffective [Abu-Lughod 1990]. Another weakness of such studies is that their focus on face-to-face interaction and language use is inadequate to the task: relations of domination and resistance, as well as the subjectivities of the participants, are mediated or constituted by larger and diverse processes originating outside of the immediate situation [Gal 1995]. Moreover, this literature tends to ignore the strength of hegemony, unlike earlier writers such as Willis (1977), who showed that the development of a counter-culture among working class youth does not necessarily

lead to a radical consciousness but may only reinforce class status. But most troubling is the tendency to trivialise the degradation experienced by subordinated groups by stressing their 'cultures' of resistance and the maintenance of social identity even under conditions of extreme exploitation [Rebel 1989. 117]. It seems to me that a more careful exposition of what is meant by both power and resistance is required. One way to concretise these concepts would be through the study of social movements, which have not received much recent attention from anthropologists in spite of their new-found interest in resistance [Escobar 1992].

In conclusion, I would like to acknowledge that the postmodern move in anthropology has been extremely important in foregrounding the symbolic or cultural foundations of power - elements which were lacking in earlier anthropologies as well as in much of political economy. However, because it identifies representation as the key to reflexivity and the 'small narratives of ethnography' as the basis for cultural critique [Ulin 1991: 67], postmodernism has not lived up to its promise of developing a critical anthropology. The most fundamental problem with much of the new cultural anthropology is that it is unable to theorise the historical constitution of subjects and thus cannot adequately connect its concern with cultural meanings to larger questions of social or political transformation. From the political economy perspective, the postmodernist writers accord too much autonomy to culture and representations, disconnecting the production and power of discourses from their social and historical moorings. Political economists insist that culture, far from being an autonomous 'web of meanings', is implicated in the production of social relations of dominance and subordination as *both* outcome and instrument. Rejecting the postmodern view of cultural phenomena as inherently fragmented, they argue for the need to discover their underlying coherence by understanding culture as historically produced by human *agents* [Fox 1991b, Roseberry 1982, Scholte 1986]. But it would be mistaken to presume that political economists simply want to resurrect a base-superstructure theory of ideology; they recognise the need to integrate the concerns of cultural anthropology with those of political economy, but argue that the hermeneutical programme of both Geertz and the postmodernists is ill-suited to their project [Rebel 1989].

Critics in the political economy camp also point out that postmodernism has failed to turn its concern with power/knowledge back on itself by interrogating either the concrete social conditions that shape its own practices, or their political implications. Because anthropologists neither own nor control the means of their scholarly production, as Fox (1991a:9) puts it, anthropology must be continuously recalled "...both to its own history ... and to the specific contemporary historical conditions that establish the institutional and discursive space of its thematic and theoretical formulations" [Scott 1992:373]. Besides developing a critique of anthropological discourse, it may be time to give up the mystical idea of cultural critique via the representation of 'difference' and to develop instead a kind of ethnography that is truly dialogical - one that recognises the discursive positioning of all the participants in the process and allows the direction of the research to be determined by the people rather than the researcher's own ambitions. I agree with Escobar (1992: 419) that if anthropology truly wants to de-authorise itself and its 'modern' knowledge practices, it needs to "...move away from the organisation of knowledge in which it exists - abstract, disembodied, and disembedded from popular social contexts, accountable primarily to the academy - and start to participate more explicitly in local questions and activities". By absorbing uncritically the dominant academic discourses of the day, many anthropologists appear to be moving in the opposite direction.

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1 Income from Sales and Operation	46,416.82	38,340 30*
2 Other Income	190.12	172.75
3. Total Expenditure	44,127.53	36,500 88*
4. Interest (Net)	154.57	225.05
5. Gross Profit after Interest but before Depreciation and Taxation (1+2-3-4)	2,324 84	1,787.12
6. Depreciation	559.51	417 28
7. Provision for Taxation (Net)	516.62	350.98
8. Net Profit (5-6-7)	**1,248.71**	**1,018.86**
9. Paid-up Equity Share Capital	389.25	369.80
10. Reserves, excluding revaluation reserves	7,485.68	6,217.53
11. Earning Per Share (Rs.)	**32.07**	**27.56**
12. Cash Earning Per Share (Rs.)	**46.44**	**38.84**

Regrouped to reflect sales/purchases at gross value.

Note :

(A) The audited accounts are subject to review by the Comptroller and Auditor General of India under section 619(4) of the Companies Act, 1956. **(B)** The above results have been taken on record by the Board of Directors at their meeting held on June 14, 1996. **(C)** During the year 1995-96, shares were allotted to employees, thereby increasing the paid-up equity capital. **(D)** During the year 1995-96, Kandla-Sidhpur and Sidhpur-Sanganer sections of the Kandla-Bhatinda product pipeline were commissioned.

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Industrial Productivity: Disaggregated Views

Attempts at measuring manufacturing productivity in India have generally operated at a high level of aggregation involving manufacturing as a whole. But the *Annual Survey of Industries*, their common source of data, reveals pronounced variations within organised manufacturing in respect of wage rates, profit rates and techniques which demand a disaggregated analysis of productivity to the extent feasible. An attempt to study productivity trends in Indian industry dividing manufacturing into sub-sectors by the criteria of ownership (public versus private) and enterprise size (small versus large) and to provide a revised index of productivity in Indian manufacturing by aggregating the disaggregated productivity measures. **3177**

Retrieving a Feminist Image

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Burying Handlooms

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In Troubled Waters

The Shiv Sena-BJP alliance in Maharashtra is in trouble, having to contend with Anna Hazare's allegations of large-scale corruption by its ministers, the judicial strictures on its conduct in the Enron renegotiation and the resentment at the Sena chief's ill-considered attack on one of the Maharashtrian middle class's literary icons. While these developments have shaken the ruling coalition, there is no political force in the state which can channel the popular discontent. **3159**

The 'Transition'

By enshrining separation of powers, individual liberties and rights of private property and entrepreneurship, Ukraine's new constitution eliminates the last vestiges of the years of communist power. **3167**

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Foreign Funds and NGOs

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Appeal to Commute Death Sentence

TWO dalit youths, Chalapathi and Vijayavardhana Rao of Guntur district in Andhra Pradesh, are currently in death row and are likely to be hanged to death on December 18. The warrant has been issued by the sessions court, Guntur. At the same time, a mercy petition for commutation of the death sentence to life imprisonment is pending before the president of India. Earlier, the Andhra Pradesh High Court and the Supreme Court of India had rejected the appeals and hence the mercy petition before the president.

The two accused had, on March 7, 1993, attempted to rob the passengers of an APSRTC bus which was en route to Chilakaluripeta from Hyderabad. Their *modus operandi*, as it appears, was to pour petrol across the length of the bus, and at knife point force the passengers to part with their money and valuables. In the execution of their act however, according to the accused, one of them accidentally set fire to the bus. Though in course of the trial the accused contended that they were not guilty of this crime, they appear to have changed their stand subsequently. They presently plead that only robbery was their motive but not the killings, and the accidental burning of the bus, mentioned earlier.

Chalapathi and Vijayavardhana Rao who are in their early 20s have no prior criminal record. They are the dalit urban poor having had to eke out a perilous livelihood and a miserable socio-economic and cultural existence. It is possible that chronic poverty drove them to commit this desperate crime. Their caste and class status is indeed a vital social if not legal evidence to be taken into account. Secondly, their averment of not having had any intention of setting the bus on fire and therefore the possibility that it could have been an accident. It is patent that they deeply regret the incident

A remarkable fact is that in the present case the judicial process has been seemingly fast, the whole process of trial having been completed in a span of four months. This switfness can also be attributed to the fact that being poor and defenceless the two accused could not take recourse to dilatory tactics so common among lawbreakers today, could not have access to ingenious legal talent, could not have access either to police officials or politicians, witnesses were under no compulsion not to testify. In short, the caste and class realities have been important dimensions in this trial.

Politicians having engineered and executed communal riots and the like, whose criminality has been proved, are yet to be brought to book. The communal riots of Hyderabad is an example of politically motivated and organised murder of hundreds of Muslims. Even where the courts have given their verdicts, a woman like Roop Kanwar who was burnt alive publicly could not get justice due to 'lack of evidence'. Bhanwari Devi was told by our judiciary that "upper caste men will not rape lower caste women". Caste, class, gender and communal politics has always mediated the nebulous zone between crime and punishment. Chalapathi and Vijayavardhana's case seems to be no exception to this general trend.

Yet another important dimension underlying this specific case is the essential philosophical and jurisprudential question of the rightness, relevance and efficacy of capital punishment. The debate still rages on with no conclusion in sight. However, the Supreme Court laid down the principle of 'rarest of the rare' in the awarding of the capital punishment. According to this principle only the rarest of the rare crimes invited the death sentence after having duly exhausted all other alternatives. Does this case fall within the parameter mentioned above is a question being posed by civil liberties groups. This is in addition to the basic question of the sustainability of capital punishment in the penal system as such. Moreover, historically the high courts and the Supreme Court have on umpteen occasions as courts of appeal regularly commuted death sentences awarded by lower courts. In the process a convention has been seemingly established of awarding a death sentence more as an exception than as a rule. (It should also be mentioned that Andhra Pradesh has not had a single death sentence in the last 17 years.) If so, could not the present case come under the ambit of the convention is another question?

We urge all civil liberties, dalit, women's groups and concerned individuals to write to the president of India asking that the death sentence be commuted to life imprisonment. Since there is not much time as December 18 is just a few days away, we request you to immediately intervene in the media by issuing statements, protest letters and also mobilise public opinion against the death sentence. Otherwise the system seems determined to do away with two hapless dalits.

SUJAYA

Chalapathi Rao and Vijayavardhana Rao's Death Sentence Commutation Committee,
Hyderabad.

Money Market: Mauritian Parallel

MONEY Market Review (September 28) deserves high appreciation for its robust analysis of data. Some readers in Mauritius wanted to draw a parallel picture for Mauritius.

The central bank released substantial banks' cash reserves in July 1996 in the spirit of strengthening the use of indirect instruments of monetary control. It was also implicitly expected that banks' interest rates would come down to a level which is reasonable to boost real sector and consequently financial sector (particularly the baby stock market). The current situation is that banks are in a race to convert additional liquidity into government securities and also into foreign currency. The first conversion is not so damaging so far as the central bank's perception regarding current excess liquidity is concerned. But the second conversion is causing some damage as it is adding fuel to the fire of depreciation of rupee caused by international trends. The issue of bringing down interest rates through the pumping of significant amount of liquidity seems to be an academic one here too. Non-resident deposit rates and financial liberalisation are cited to explain high interest rates as well as its lack of responsiveness to availability of funds.

Bankers think that financial liberalisation has made them more concerned about the quality of credit, not the amount of credit. Therefore, banks in general are reluctant to lend whenever creditworthiness is in doubt. The growth in demand for quality credit is lagging, so excess supply is not felt in the credit market and lending rates remain sticky. If the quality of credit is compromised, the additional funds are certain to bring about a notable reduction in overall lending rates.

The fact should be recognised that banks are willing to provide personal and trade credit in order to avoid credit risk and also to earn more, instead of providing credit to (risky) production-related activities at a low cost.

This situation however does not warrant the authorities reimposing direct interest rate regulations. The trade-off between the quality of credit and the cost of credit should be analysed properly.

To conclude, when the market is slow and inactive to bring correction, policy should meet the gap with least use of fiat.

T K CHAKRABARTY

Mauritius

ECONOMIC AND POLITICAL WEEKLY

One More Paper Exercise

THE Planning Commission has apparently learnt nothing from past experience. Its *Approach Paper* for the Ninth Plan (1997-98 to 2001-02) harps on the same time-worn, mechanical Harrod-Domar type of macro-economic relationships and, based on them, presents alternative GDP growth targets together with estimates of the required saving and investment rates and implicit incremental capital-output ratio. The document, just like the ones prepared for the earlier plans, fails to present a plan-frame linking the plan programmes and targets to policies and institutional apparatuses. If the Planning Commission believes that the incorporation of impressive numbers of overall and sectoral growth into the Ninth Plan will revive popular faith in planning in the face of the onslaught of liberalisation and globalisation, it is sadly mistaken. What the Commission needed to do, and what it has not done, was to engage in a critical reassessment of its role in the context of the vastly changed national and international economic environment and set out a path of development more relevant to the needs and capabilities of this country than that being sought to be forcibly imposed by the so-called economic reformers. The Commission, it is well known, was assigned no role in the shaping of the economic reforms dictated by the stabilisation and structural adjustment programmes of the IMF and the World Bank. What was worse, given the actual record of the type of economic planning pursued in the country, no one seemed to seriously mind this complete marginalisation of the Planning Commission during the Narasimha Rao-Manmohan Singh regime. The Commission's own response, despite all the sound arguments for holding that our particular brand of reforms hinged to free markets, free trade, stable money and globalisation were likely, at this stage of the country's development, to aggravate the accumulated problems of poverty, unemployment, rural-urban, inter-regional and inter-class disparities and even technological backwardness, was thoroughly spineless. The 'discussion paper' it prepared in early 1994 in effect cut the ground from under economic planning by its mealy-mouthed assertion that "in the absence of a free market the system becomes blind to costs and efficiency and leads to enormous wastage of resources and ultimately in the wasting of growth potential". It was instead content to seek a role for itself in terms of proposing certain socially desirable objectives in an essentially market-driven economic set-up. This is, of course, what the Commission has been doing from the very beginning; what has been missing is a role for it in working out how the desired social goals were in fact to be achieved. The Commission's planning exercises by and large remained an academic activity even as different government departments, at the centre and in the states, went about making and implementing economic policies generally unconcerned about their macro-economic implications.

The new Planning Commission has failed even more glaringly to face up to the challenge before it in the current dispensation. Curiously enough, one expression of the challenge has come from one of the Commission's own members who has chosen to go on record with the assertion that "the first priority of planning in India today would be to complete the unfinished task of economic reforms". The member concerned has questioned the very basis of so-called target-oriented planning for investment allocation over a five-year period. Doubting that there is any relationship between the size of investment and the growth of output, he has expressed misgivings about the usefulness of any notion of the size of plan outlay for a period of five years. There was also no point in seeking the commitment of the finance ministry or the state governments on the size of the five-year plan outlay since no credible commitment could be given by them for so long a period. This member at least wants the Planning Commission to turn its efforts to planning for policies in a market economy, to move away from macro-economic to micro-economic planning with the emphasis on development of agriculture, infrastructure and social sectors through flexible annual plans.

The Planning Commission has failed to confront these positions, though taken as a whole they could be said to come quite close to demanding an end to the whole planning exercise. Instead, in its *Approach Paper*, it has once again put on public display the yawning gap between the Plan's physical targets and the policy instruments for achieving them. In the process it has in effect conceded the economic reformers' central contention that there is no link between planning and the growth of the economy. Goaded by the prime minister, the Commission has concocted visions of 7 per cent annual growth of GDP, comprising 3.5 per cent growth of agriculture and 9.3 per cent growth of industry. The Approach document wants it to be believed that its sectoral and overall growth targets are consistent with a fiscal deficit of 4 per cent of GDP, a domestic saving rate of 26.2 per cent, a current account deficit of 2.3-2.4 per cent, an investment rate of 28.6 per cent and an incremental capital-output ratio of 4.1. Even on this aggregative plane what stands out is the absence of any policy-frame for raising the saving propensity of the community, since a lacklustre rate of domestic saving has been an ever-present and particularly intractable hurdle to sustained high growth of the economy in the past. This is particularly relevant just now since, under the spell of liberalisation, all aspects of

macro-economic policies are geared to boosting consumption by the middle classes and the rich. The average gross domestic saving rate for the three-year period 1988-89 to 1990-91 was 22.5 per cent and it may have been around 22.8 per cent in the last three years from 1993-1994 to 1995-96. With the base-line estimate of 24 per cent for 1996-97 used for the Approach document's Ninth Plan exercises, the projection of a saving rate of 26.2 per cent for the Plan's terminal year, implying an incremental saving ratio of over 30 per cent, is on the optimistic side. There is nothing in the Planning Commission's thinking, as revealed in the *Approach Paper*, which would go to correct the present pro-consumption bias and raise the economy's savings base.

The Planning Commission's fiscal objectives likewise cannot be achieved as tax reforms have already significantly eroded budgetary resources. Given the committed non-development expenditure on interest payments, subsidies, defence and the administration, taking into account also the implications of the recommendations of the Fifth Pay Commission for government employees, no significant improvement can be expected in the current situation of dissaving by the government administration. This is, of course, the reason why the finance ministry is unwilling to commit itself to the high level of budgetary support of Rs 3,70,000 crore – compared to the initially expected level of Rs 2,80,000 crore – to make possible a public sector outlay of Rs 8,00,000 crore in the Ninth Plan. The additional budgetary support is being sought for financing larger public sector outlay on infrastructure, as it is abundantly clear by now that the economic reformers' expectations of private sector investment, including by MNCs, on infrastructure areas will turn out to have been pipedreams. In the absence of a substantial improvement in domestic saving, the economy's potential for absorbing either higher private sector investment or foreign direct investment of the projected order of $ 10 bn per year or anything remotely approaching that can be easily written off.

The mismatch between targets and policies and instruments is notable also in the nine-point goals set for the Plan, all supposedly reflecting the highest priority accorded by the Planning Commission to the generation of productive employment and eradication of poverty. Apart from unexceptionable, and equally meaningless, statements about accelerating economic growth at stable prices and strengthening efforts towards self-reliance, the nine-point programme encompasses food and nutritional security for vulnerable sections, safe-drinking water, primary health, universal primary education, shelter and road links, containing population growth, empowerment of women and socially disadvantaged groups and promotion of panchayat raj institutions, self-help groups and co-operatives. All of these objectives were enshrined in the earlier plans as well. But one of the more important lessons of our recent experience is that we cannot make do with low savings and expect to achieve high industrial growth on the strength of the consumption propensities of the rich and middle classes and at the same time hope to make significant improvements in the socio-economic conditions of the poor in the above manner. For one thing, the high GDP growth target of 7 per cent and industrial growth of 9.3 per cent imply a certain investment strategy which would have significant opportunity costs in terms of starving the social sectors of the required attention and financial resources. For another, the Planning Commission has no suggestions for improving the organisational and institutional capability of public administration to actually deliver these social services to the poor in an efficient and effective manner.

POLITICS

Pushed into a Corner

IN its desperate bid to keep the United Front government in power, the Left appears to give in to pressures from all quarters. First, it was home minister Indrajit Gupta who had to eat his words after the Congress Party objected to his critical remarks about it. He has now been virtually reduced to a non-entity in the cabinet, with the prime minister rarely consulting him even on decisions involving his ministry. Now it is the turn of the CPI(M) leader Harkishen Singh Surjeet to bow under pressures from the World Bank, sweetened by the suave presentation made by finance minister P Chidambaram at the recent meeting of the Steering Committee of the United Front.

The Left representatives, along with Surjeet, were so overwhelmed by Chidambaram's statistics and assurances, that without batting an eyelid they agreed to his proposal to privatise the insurance sector and disinvestment of public sector units (PSUs) shares up to 74 per cent. In exchange, they got the sop of a revamped public distribution system (PDS) that would give wheat and grain at half the issue price to people living below the poverty line. It apparently never occurred to the Left leaders attending the meeting to question whether the PDS reached the remotest villages – in the poorest tribal districts or the drought-hit areas of Orissa where people are dying of starvation – and people who can never afford to buy foodgrains even if the prices are reduced by half. The prompt acceptance of Chidambaram's promise on PDS by the Left indicates the growing alienation of the Left leaders from the ground reality – an alienation which leads to the sort of gullibility that one discerns in the behaviour of Communist ministers and politicians, the former depending on the advice of dyed-in-the-wool bureaucrats and the latter swayed by the rhetoric of Harvard-educated or World Bank-trained 'experts'.

The composition of the United Front government being what it is – a mishmash of hitherto unknown regional leaders suddenly propelled on the national scene, a few veterans from the past Left movement still trying to adhere to their socialist commitments, and two ministers holding the major portfolios of finance and industry totally wedded to the World Bank programme of opening up of the Indian economy to foreign multinationals and privatisation – what else can one expect from those in the Left who are a part of the United Front government (like the CPI) or those who are supporting it from outside (like the CPI(M)? In the uncomfortable political equations within such a United Front, the Left, if it is still loyal to its ideology, should find itself an alien. But it is trying to keep up the *bonhomie* with its partners and in the process it is giving up, one by one, its commitments not only to its electoral constituency but also to its followers in the trade union fronts.

Following the Left's acceptance of Chidambaram's proposals, rumblings have emerged in both the CPI's trade union front, AITUC and the CPI(M)-run CITU. They are opposing tooth and nail the proposals for the privatisation of the insurance sector and disinvestment in public sector units and are planning to chalk out a programme of direct action against these proposals in early December.

The Left will thus face an unenviable situation of being forced to confront its own constituency in the trade union movement. The trade unions, nurtured by the Left all these years in the public sector, have their stakes in its continuation. The stakes are not only the ideological issue of traditional Leftist support of nationalisation of major sectors of the economy, but also the privileges and perks that employees in the PSUs have been enjoying all these years.

KARNATAKA

Shifting Sands

WHEN J H Patel took over as chief minister, it was generally believed that Deve Gowda, the outgoing chief minister, was installing a compromise candidate, who was the best choice at that time. After all Patel, it must be remembered, was a nominee of Ramakrishna Hegde and he was accepted by

Gowda over the other more favoured candidates, all vokkaligas. At that point of time, with Hegde obviously miffed at Gowda being chosen as the United Front's candidate for the prime ministership, it was necessary to appease him to keep any turbulence in the state Janata Dal in check. And with Hegde's exit from the party it became even more important that any rumblings within the party be quietened and no new tensions be allowed to be articulated. Patel used these developments skilfully to keep control over party affairs in the state, despite provocative interference by the prime minister. In the last month, however, the political equation in Karnataka has changed somewhat, making Patel more vulnerable to Deve Gowda's manipulations.

For one thing, Hegde is no longer a factor in the power play. His Rashtriya Navnirman Nagarik Samiti has all but fizzled out. It could secure only three out of the 100 seats it contested in the Bangalore civic elections. Nor has it been able to make much headway through the assembly by-elections where it attempted to selectively support candidates regardless of party affiliations. It supported two BJP candidates, one BJP-supported independent, a Karnataka Congress candidate and even a Janata Dal candidate (reportedly because he had been picked by a Hegde supporter within the party). So Hegde can no longer be deemed a threat to Gowda or the Janata Dal. It is true that the Janata Dal has not done too well in the civic elections and the assembly by-elections. It secured only four of the eight assembly seats, losing in the vokkaliga stronghold KR Pet (much to Gowda's discomfiture) and Gudledgudd to BJP and rebel Dal candidates, respectively. It secured only 19 seats in the Bangalore civic body whereas it had controlled the corporation the last time. It has nevertheless emerged as the single largest party. But in other cities it has suffered heavily.

However, it is not as if there is any other party, either the BJP or the Congress(I), which has been able to pose a challenge to the Janata Dal. Although the BJP was able to emerge as the second largest party in the Bangalore corporation, this fell far short of the party's expectations. Nor was it able to register any significant victories in any other city. In the assembly by-elections too, apart from wresting the prestigious KR Pet seat from the Janata Dal, it could win only one other seat, Bhatkal in south Karnataka, where its margin of victory was considerably reduced. However, the party's candidates, both winners and losers, have been able to secure a larger proportion of the vote than earlier, strengthening the view that BJP's efforts to capture the south should not be written off, not yet. The Congress(I) did not win in a single assembly constituency, nor does its urban profile appear well defined.

The stage is thus set for dissidence in the Janata Dal to bloom. And so it seems to be doing. Supported apparently by Gowda, the dissidents have demanded an immediate convening of the state legislature party. By publicly and disarmingly declaring that he had no objection to that, Patel has for the moment taken the wind out of the dissidents' sail. They had more to gain from a long-drawn-out campaign to pressurise a reluctant Patel to convene the meeting.

PDS

Where Is the Food?

FOR sheer irresponsibility it will be difficult to improve upon the announcement by the union minister for food and civil supplies in Ranchi on November 27 that all hurdles in the way of the new public distribution system, under which foodgrains are to be made available to those below the poverty line at half the normal PDS issue prices, had now been removed and that the scheme would be launched from January 26 next year. The scheme, it will be recalled, is a part of the UF's common minimum programme and the prime minister had announced in his independence day address that it would be introduced from October 2. How typically hasty and ill considered the announcement had been became clear once attention was paid to the problems of implementing the scheme. Esoteric theoretical misgivings about the advisability of targeting subsidies and practical concerns about leakage of subsidies to the undeserving non-poor apart, the really daunting consideration, of course, was that if even a fair proportion, not to speak of all, of those below the poverty line were to be covered under the scheme the quantum of foodgrains to be released through the PDS would shoot up with a more than proportionate rise in the food subsidy, given the commitment to supply foodgrains to the poor at a fraction of the normal PDS prices. Clearly this factor alone – not to mention other hurdles such as that over large parts of the country, especially in states with the largest proportion of the poor, the essential infrastructure for the PDS is virtually non-existent – was enough of a guarantee that the scheme would remain a talking point, a symbol of the UF government's concern for the poor, but would never be introduced with any seriousness. The dismal fate of the so-called revamped public distribution system announced by the Narasimha Rao government is a conclusive pointer in this regard, even though its objective was the much more modest one of supplying foodgrains in areas of heavy concentration of scheduled tribe populations at prices just 10 per cent below the normal PDS prices.

These considerations have been known all along, but what the food minister was deliberately ignoring when he made his statement on the new PDS was that since the time when the scheme was thought of, in howsoever hare-brained a fashion, the foodgrain availability situation in the country has changed dramatically. Reflecting the shortfall in production last year, prices of wheat, and of foodgrains generally, have been rising sharply. The wholesale price index for primary food articles on November 9 showed a rise of 2.4 per cent over just one month. Expectedly, this has led to an increase in the offtake of foodgrains under the PDS, because of the widened difference between PDS and open market prices. The government has also directed the Food Corporation of India to increase its open market sales of wheat to dampen the rise in market prices. As a result it is expected that, from a situation of the PDS being burdened by excess foodgrain stocks, the stock of wheat in the central pool will fall a million tonnes below the minimum buffer stock norm of 3.7 mn tonnes by April next year. So where are the foodgrains for the new PDS for those below the poverty line to come from?

But why should Devendra Prasad Yadav allow such inconvenient considerations to interfere with his public pronouncements? He is the union food and civil supplies minister after all.

JANATA DAL

In a Shambles

THOUGH the 150-odd Janata Dal (JD) senior leaders had gathered at the party's two-day national camp at Surajkund to settle organisational issues, problems which the Congress and the United Front (UF) allies featured more prominently in their discussion than intra-party matters. This was expected since Laloo Prasad Yadav, the only leader able to stand up to Deve Gowda, is on the defensive as his government faces serious charges of corruption in Bihar. With the Left allies distancing themselves from him in his state, Laloo Prasad has been left with little option other than playing second fiddle to Gowda. Yet Laloo Prasad had his pot-shots at his Left allies, indicating that in spite of the growing threat from the BJP-Samata Party alliance in Bihar, he is not in a conciliatory mood.

Gowda too has been at the receiving end of criticism from his allies. Yet unlike Laloo Prasad, he can ill-afford to nonchalantly dismiss them. Heading a 13-party government, without the JD having a dominant presence in it, he is in no position to bulldoze his way through. Gowda has been successful in roping in Ajit Singh and Farooq Abdullah into the UF. But his attempts with the Gujarat

chief minister Shankersinh Waghela and Arunachal chief minister Apang have been frowned upon by his Left partners. The Gowda government's decision to form a separate state of Uttarakhand still rankles with the CPI(M) as it has resulted in reviving the demand for Gorkhaland in West Bengal. The Left parties have also been quick to point out what they consider as 'deviance' from the common minimum programme and have been mounting pressure on the eve of UF co-ordination committee or steering committee meetings. The TMC and the DMK, the two constituents of the UF from Tamil Nadu, have expressed their displeasure at Gowda's talks with Jayalalitha and are also suspicious of a bias in favour of Karnataka on the Cauvery water dispute. The TDP in Andhra Pradesh also harbours a similar suspicion about Gowda ever since the Almatti dam row. Andhra Pradesh chief minister Chandrababu Naidu's belligerence has also grown with the tardiness of the central government in disbursing relief assistance to the state.

Gowda's advice to his party workers to be tolerant of criticisms also stems from the fact that none of the UF constituents, in spite of their incessant grumbling, can dare to attempt to topple the government. The threat of the BJP is strong enough to rein them in. Rather it is the happenings in the Congress that are far more crucial to the survival of the UF government. With the change of guard in the party and the call for unity given by Sitaram Kesri, the splinter groups, by rejoining, can bolster the Congress position. Already, since Kesri's nomination, the Congress has become a vociferous critic of the UF government's economic, foreign and defence policies. That also explains why, in spite of home minister Indrajit Gupta's grouse that he is hardly consulted, prime minister Deve Gowda deems it more important to have formal and regular consultations with the new Congress president, Sitaram Kesri.

PAKISTAN

Self-Inflicted Wound

WHEN president Farooq Leghari dismissed the three-year-old Benazir Bhutto government on November 5, there would have been few among the general public who would have questioned the president's charge that the government's functioning had ground to a virtual halt because of the large-scale corruption and there was danger of the situation deteriorating further. Benazir's increasing compulsion to sideline parliamentary debate on the issue – the last involving her husband's alleged investment in properties in England – had created even among her party members increasing disgruntlement. What was at issue, however, was the constitutional validity of dismissing a government on such grounds, which were unproven. Not surprisingly, this is in fact what Bhutto has chosen to emphasise in her petition to the Supreme Court which, twice refused admission because of the intemperate language used against the president, is now awaiting hearing. Bhutto has claimed that she is in fact *de jure* prime minister on the basis of the Supreme Court's decision on a similar petition of Nawaz Sharif in 1993.

Leghari, the astute politician he is, has taken advantage of the general discontent about the very visible inefficiencies of the Bhutto government, especially on two issues – the ethnic turmoil in Sindh especially affecting the prosperous commercial gateway city of Karachi and the tensions around the murder of Murtaza Bhutto – as well as the increasing and blatantly corrupt deals and practices of Benazir Bhutto and her husband. However, it is conceivable that there were other more pressing factors at work. There are sufficient indicators that the army, a leading player in Pakistani politics, had been increasingly disturbed by the spiralling ethnic violence and its inability to take control, especially in the context of Bhutto's recent ambiguity in dealing with the armed forces, while apparently drawing closer to the fundamentalist interests. It is also a fact that Pakistan's current debt situation and its relations with the US are such that their influence on political events can hardly be ruled out. While the army's role in Bhutto's dismissal is being much discussed especially in the media outside Pakistan, it is clear now that Leghari and the interim government will do their best to make sure of the constitutional validity of the dismissal and the formation of a new government. The president has taken special care in all his pronouncements to portray himself and the interim government as not necessarily anti-Bhutto but only anti-corruption and having only the country's best interests at heart. The interim government has acted swiftly to set up an Anti-Corruption Commission headed by a retired Supreme Court judge under the newly passed Anti-Corruption Law. The president has for instance insisted that the proviso in the constitution which has allowed him to dismiss the government needs to be reviewed and perhaps amended, but has held that while it exists, its use cannot be unconstitutional. He has also magnanimously pointed out that the Bhutto government's foreign policy initiatives have yielded results – especially in terms of the country's relations with the central Asian countries and that the slant of policy towards its neighbours will see no change in the period before the elections. When challenged that the holding of elections when Pakistan's census enumeration was overdue may be construed as introducing a deliberate bias, he has maintained that the requirement of the constitution is to hold elections within three months.

Nevertheless, Bhutto's attempts to come back to power in the February elections are severely hampered by various factors, some of which are the consequence of the president's actions. There have been rumblings within the Pakistan People's Party (PPP) and reports indicate that the president is himself putting together a new party drawing upon those in the PPP who have become disenchanted with the Bhutto regime. At the moment there does not appear to be a rallying of forces around Bhutto. But these are early days yet, and much can happen before February.

CURRENT STATISTICS

EPW RESEARCH FOUNDATION

Despite a copious south-west monsoon and a possible bumper crop, the general WPI and the indices of primary (and food) articles as also foodgrains have all registered steady unseasonal increases since end-September. The rise in the WPI this year so far at 6.6 per cent has been higher than that over the same period of last year (5 per cent). The composite food index has registered a rise of 12 3 per cent so far against only 7.7 per cent last year. The price increases have been much higher this year in all commodity groups and sub-groups with the exception of non-food manufactured products.

Macroeconomic Indicators

Index Numbers of Wholesale Prices (1981-82 = 100)	Weights	Nov 16, 1996	Variation (Per Cent): Point-to-Point								
			Over Month	Over 12 Months		Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93
				Latest	Previous	1996-97	1995-96				
All Commodities	100.0	319.4	0.6	6.6	8.3	6 6	5.0	5.0	10.4	10.8	7.0
Primary Articles	32 3	335.3	1.5	7.8	8.7	8.9	6.5	5 4	12.7	11.5	3.0
Food Articles	17 4	386.4	3.1	12.2	8.3	12.1	9.7	9.8	11.9	4.4	5.4
Non-Food Articles	10 1	332.4	-1.3	1 4	10.0	4.7	1 3	-1 9	15.5	24.9	-1.4
Fuel, Power, Light and Lubricants	10.7	332.9	0.9	17.1	1.1	12.8	-0.1	3 7	2.4	13.1	15.2
Manufactured Products	57.0	307.9	0.1	4 0	9.5	4.2	5.2	5.0	10.7	9.9	7.9
Food Products	10.1	305.1	-0.9	8.0	3 8	12.7	3.7	-0 7	8.1	12.3	6.8
Food Index (computed)	27.5	356.5	1.8	10 8	6 8	12 3	7.7	6 3	10.6	7.0	5.8
All Commodities (Average Basis) (April 6-November 16, 1996)	100 0	311.3	-	5.5	9.8	5.7	9 0	7 8	10 9	8.3	10.1

Cost of Living Indices	Latest Month	Variation (Per Cent): Point-to-Point								
		Over Month	Over 12 Months		Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93
			Latest	Previous	1996-97	1995-96				
Industrial Workers (1982=100)	344^{9}	0 3	8.5	10.1	7.8	8 2	8 9	9.7	9.9	6.1
Urban Non-Man Emp (1984-85=100) (for 1995-96)	263^{10}	0 8	9 6	10.1	7 8	8 1	-	9.9	8.3	6.8
Agri Lab (1986-87=100) (Link factor 5 89)	256^{8}	1.6	7.1	14.4	8.0	8 1	7 2	11 1	11.2	0.6

Money and Banking (Rs crore)	Nov 8, 1996	Variation					
		Over Month	Fiscal Year so far		1995-96	1994-95	1993-94
			1996-97	1995-96			
Money Supply (M_3)	654711	10884 (1.7)	52875 (8.8)	31062 (5.8)	70410 (13 2)	79241 (17.5)	73307 (19.3)
Currency with Public	129191	5987 (4.9)	11030 (9.3)	13696 (13.6)	17480 (17.4)	18698 (22.8)	14170 (20.9)
Deposits with Banks	520171	5493 (1.1)	39836 (8.3)	15094 (3.5)	52973 (12 4)	59685 (16 2)	57925 (18.7)
Net Bank Credit to Govt	279898	3749 (1.4)	22488 (8.7)	24058 (10.8)	34991 (15.7)	16328 (7.9)	28855 (16.3)
Bank Credit to Comml Sector	349761	5044 (1.5)	8859 (2.6)	19414 (6.6)	48179 (16 5)	48059 (19 6)	17161 (7.5)
Net Foreign Exchange Assets	87849	2164 (2 5)	10693 (13 9)	-495 (-0 6)	-628 (-0.8)	25159 (47 8)	27674 (110.9)
Reserve Money	189974	2669 (1 4)	-4362 (--2.2)	17257 (10.2)	25054 (14 8)	30611 (22.1)	27892 (25.2)
Net RBI Credit to Centre	125119	-135 (-0 1)	6351 (5.3)	19350 (19.6)	19855 (20.1)	2130 (2.2)	260 (0.3)
Ad hoc Treasury Bills (Nov 15)	36955	4170	7510	11415	5965	1750	6300
Scheduled Commercial Banks							
Deposits	465217	2495 (0 5)	31397 (7.2)	10820 (2.8)	46961 (12 1)	53629 (16.1)	52144 (18.6)
Advances	256556	3071 (1 2)	2541 (1 0)	16802 (7 9)	42455 (20.1)	40638 (23 8)	11566 (7.3)
Non-Food Advances	247596	2488 (1.0)	3372 (1 4)	16349 (8 2)	44938 (22.5)	37798 (23 4)	8875 (5.8)
Investments	180604	3436 (1.9)	15821 (9 6)	5701 (3 8)	15529 (10.4)	14171 (10.5)	28641 (26 9)

Index Numbers of Industrial Production (1980-81=100)	Weights	July 1996	Fiscal Year So Far		Fiscal Year Averages					
			1996-97	1995-96	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
General Index	100.0	285.1	283.1(9 3)	259.1(12.3)	284.3(12.1)	253 7(9.4)	232 0(6.0)	218.9(2 3)	213.9(0.6)	212 6(8.2)
Mining and Quarrying	11 5	243 0	247.7(1 8)	243 4(15.4)	265.9(6.9)	248 8(7.5)	231.5(3.5)	223 7(0.6)	222 5(0.6)	221 2(4.5)
Manufacturing	77 1	282.8	279 3(11 7)	250.1(11 9)	278 8(13.6)	245 4(9.8)	223.5(6 1)	210.7(2.2)	206 2(-0 8)	207.8(9.0)
Electricity	11.4	343 0	344 1(2.5)	335.8(12 5)	340 3(8 2)	314.6(8 5)	290.0(7.4)	269.9(5 0)	257.0(8 5)	236 8(7.8)

Capital Market	Nov 29, 1996	Month Ago	Year Ago	1996-97 So Far		1995-96		End of Fiscal Year		
				Trough	Peak	Trough	Peak	1995-96	1994-95	1993-94
BSE Sensitive Index (1978-79=100)	2891(-1 1)	3240	2922(-29.6)	2871	4069	2826	3584	3367(3 3)	3261(-13 7)	3779(65.7)
BSE 100 (1983-84=100)@	1284(-4.3)	1440	1342(-31.7)	1278	1843	1304	1691	1549(-3.5)	1606(-12 2)	1830(79.2)
BSE-200 (1989-90=100)	287(-2.7)	318	295(-37.2)	287	413	289	385	345 (-6 3)	368(-18.2)	450(92.3)
NSE (Nov 3, 1995=1000)	830	926	na	825	1196	na	na	na	na	na
Skindia GDR Index (Apr 15, 1994=100)	58(-6.9)	59.6	62.3(-38.1)	56 0	90 0	61 6	87 9	78 5(0 7)	78 0	na

@ Renamed index since Oct 14, 1996, compared with the earlier National Index (1983-84=100)

Foreign Trade	September 1996	Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93	1991-92
		1996-97	1995-96					
Exports: Rs crore	9277	56801 (20.9)	46973 (25.3)	106465 (28.8)	82674 (18.5)	69751 (29.9)	53688 (21.9)	44042 (35.3)
US $ mn	2596	16150 (9.1)	14805 (23.8)	31831 (20.9)	26331 (18.4)	22238 (20.0)	18537 (3.8)	17866 (-1.5)
Imports: Rs crore	10269	63182 (14 5)	55158 (35.1)	121647 (35.2)	89971 (23.1)	73101 (15.3)	63375 (32.4)	47851 (10.8)
US $ mn	2874	17964 (3.3)	17384 (33.6)	36370 (26 9)	28654 (22 9)	23306 (6 5)	21882 (12.7)	19411 (-19.4)
Non-POL US $ mn	2142	13548 (-5 1)	14271 (37.7)	28822 (26.8)	22727 (29.5)	17552 (11.2)	15782 (12.3)	14047 (-22.2)
Balance of Trade: Rs crore	-992	-6381	-8185	-15182	-7297	-3350	-9686	-3809
US $ mn	-277	-1814	-2580	-4539	-2324	-1068	-3345	-1545

Foreign Exchange Reserves (excluding gold)	Nov 22, 1996	Nov 24, 1995	Mar 31, 1996	Variation Over							
				Month Ago	Year Ago	Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93
						1996-97	1995-96				
Rs crore	69771	60841	58726	1784	8930	11045	-5187	-7302	18402	27430	5385
US $ mn	19558	17579	17126	468	1979	2432	-3237	-3690	5640	8724	731

Notes: (i) Superscript numeral denotes month to which figure relates, e g, superscript 9 stands for September. (ii) Figures in brackets are percentage variations over the period specified or over the comparable period of the previous year. na = not available.

Money Market Rates of Interest

(per cent per annum)

Weekended Fridays / Instruments	November 1996					October 1996				September 1996			
	29	22(RF)	15	8(RF)	1	25(RF)	18	11(RF)	4	27(RF)	20	13(RF)	6
Call money rate (weekly weighted average: RBI)	na	na	8.49	3.08	4.79	9.18	9.55	8.90	10.70	10.56	10.43	6.02	5.81
Call money rate (Range weekly)	0.50-10.00	0.25-11.00	7.00-12.25	0.25-11.00	1.50-8.00	0.10-11.00	9.00-10.25	0.15-10.25	10.40-10.90	0.25-10.95	10.25-11.00	0.25-7.25	5.50-7.00
Treasury Bills:													
91-Day (On tap or ad hoc)	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60
91-Day (RBI Auction):													
Primary	8.16	8.16	7.21	7.21	6.92	8.83	10.05	10.09	10.17	10.17	10.13	10.00	9.96
Secondary. DFHI (mid-point of bid and offer)	8.59	6.67	7.15	5.20	6.74	7.37	9.02	9.56	10.11	10.09	9.93	9.81	9.35
All SGL trading (Weighted YTM)	7.17	8.18	8.07	6.30	7.01	8.82	9.28	9.10	9.92	10.22	10.09	9.50	8.19
364-Day (RBI Auction)													
Primary	*	10.40	*	10.10	*	12.10	*	12.61	*	12.61	*	12.61	*
Secondary DFHI (mid-point)	9.55	9.16	8.50	7.86	8.95	9.01	10.21	10.52	10.89	11.52	11.50	11.45	11.40
All SGL trading (Weighted YTM)	9.96	10.42	8.95	9.65	11.02	12.07	12.38	12.29	12.61	12.57	12.58	12.77	12.60
State Govt loans (Coupon rates)	–	–	–	–	–	–	.	–	..	–	--	–	–
All SGL trading (Weighted YTM)	13.87	13.79	11.49	13.27	13.44	13.99	13.91	...	13.71	13.63	13.73	13.91	13.77
GOI Securities.													
Primary Auctions	13.55 (5 years)	*	*	*	*	*	*	13.73 (4 years)	*	*	13.81 (6 years)	*	*
Secondary All SGL trading (Weighted YTM)	13.15	11.95	11.67	12.33	13.03	13.10	13.32	13.43	13.27	13.31	13.66	13.60	13.30
PSU Bonds yield:-													
Tax free. NSE (traded, weighted)	14.05	13.74	14.33	13.63	14.01	14.07	13.29	14.36	13.97	13.98	13.25	14.03	14.47
NSE (Range: weekly)	13.48-14.27	11.74-14.62	10.90-14.70	9.82-14.46	13.21-14.27	13.26-14.37	10.59-14.62	12.63-14.65	13.22-14.23	13.13-14.73	12.20-13.31	13.04-14.66	12.87-14.84
Taxable. NSE (traded, weighted)	15.49	15.17	..	14.43	16.49	16.47	17.91	17.23	19.46	17.51	..	...	15.84
NSE (Range: weekly)	12.73-17.58	13.84-17.84	.	13.81-16.69	16.33-16.64	16.22-16.71	16.40-19.91	15.28-17.80	19.46	15.69-18.2	..	.	14.00-18.69
Commercial Bills:													
DFHI (Rediscount rate)	12.50	12.50	12.50	12.50	12.50-13.50	13.50	13.50	13.50	13.50	12.50-13.50	12.50	12.50	12.50
CP: Primary market (90 days)	12.00-14.50	12.00-14.50	12.00-14.50	11.75-14.50	11.50-14.50	13.00-15.50	13.25-15.50	13.50-15.50	13.00-15.00	13.00-15.50	13.00-15.50	13.00-15.50	13.00-15.50
Secondary: DFHI (Discount rate)	14.00	14.00	14.00	14.00	14.00-14.50	14.50	14.50	14.50	14.50	14.00-14.50	14.00	14.00	14.00
Market/NSE	11.50	11.25-11.60	...	.	11.50	...	..	11.75	.	.	.	14.00	11.00
CDs: Primary market	12.00-13.50	12.00-13.50	11.00-12.00	11.00-12.00	11.00-12.00	10.50-14.00	11.50-14.00	11.00-16.00	11.25-16.00	10.00-13.00	10.00-13.00	10.00-13.00	10.00-13.00
Secondary: DFHI (Discount rate)	12.50	12.50	12.50	12.50	12.50-13.50	13.50	13.50	13.50	13.50	12.50-13.50	12.50	12.50	12.50
Inter-corporate deposits (30/90/180 days)	16.00-18.00 (21.00-25.00)	16.50-18.50 (21.50-25.00)	16.00-18.00 (21.00-25.00)	16.00-18.00 (21.00-25.00)	18.50-19.50 (22.50-26.00)	18.50-20.00 (22.50-26.00)	18.50-20.00 (22.50-26.00)	18.50-20.00 (22.50-26.00)	18.50-20.00 (22.50-26.00)	17.00-19.00 (22.50-27.00)	17.00-19.00 (22.00-27.00)	17.00-19.00 (22.00-27.00)	17.00-19.00 (22.00-27.00)
UTI-1964 Units (Week-end secondary market price in rupees)	14.00	14.00	14.00	14.00	14.00	13.90	14.10	13.90	13.90	13.80	13.80	13.80	13.80
Hundi Rate	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00	24.00-30.00
Memorandum Items													
(i) Forward premia on the US dollar in the domestic inter-bank market (annualised in per cent per annum) (Weekly average)@													
Spot/Cash	2.08	7.67	6.46	2.56	0.45	5.77	4.10	5.06	8.12	8.64	8.11	5.43	3.90
One-month	5.50	7.11	6.15	2.59	2.14	3.76	5.32	5.68	6.37	7.74	8.46	8.45	6.40
Three-month	7.57	8.65	7.06	4.97	5.11	6.21	7.29	7.17	7.12	8.40	9.58	9.86	8.91
Six-month	8.40	9.10	7.75	6.16	6.45	7.07	8.53	8.47	8.51	9.49*	10.47	10.72	10.32
(ii) RBI Reference Rate (Rs/US$)	35.76	35.69	35.82	35.75	35.67	35.61	35.66	35.65	35.62	35.76	35.72	35.77	35.81
(iii) Havala Rate (Rs/US$) (Dubai)	na	na	38.70	38.70	38.90	38.90	38.90	39.00	39.00	39.00	39.00	39.00	39.00

... no trading * no auction na not available (–) no floatation YTM = yield to maturity

RF means Reporting Friday for fortnightly reporting of conditions of banking business and the fortnight serves as the reserve maintenance period for scheduled commercial banks. @ Based on daily quotations supplied by Mecklai Financial and Commercial Services Ltd, Mumbai.

GREAVES

Growing Market

AFTER a 1:2 bonus issue last year, Greaves has further improved its performance during 1995-96 with a 42.1 per cent increase in net sales and a 40.8 per cent increase in value of production. This Lalit Mohan Thapar group company is engaged in the manufacture of engines, road rollers, gears, boilers, filters, cranes, hoists, pumps, diesel three-wheeler auto rickshaws, spares and accessories. With a somewhat lower increase in operating expenses, operating profit rose by 45.9 per cent during the year under review. Lower increases in interest (31.6 per cent), depreciation (8.9 per cent) and tax provision (22.9 per cent) helped the company post a 98 9 per cent higher net profit. Exports too were higher by 12.2 per cent, though imports rose by a steeper 63.7 per cent over the previous year. With the rise in the bottom-line, the company's earnings per share rose from Rs 4.9 to Rs 6.5 Book value, however, was lower at Rs 47.8 compared to Rs 67.2 in the previous year due to the bonus issue last year which increased the equity by 50 per cent.

With the company's 'Greaves Garuda', a diesel three-wheeler, being well received in the market, Greaves has undertaken to double its production capacity. The company was able to corner up to 12 per cent of the market, which is currently dominated by Bajaj Auto, mainly due to the Greaves Garuda's lower operating costs, despite the diesel version being priced 15 per cent higher than Bajaj Auto's petrol version three-wheeler. Greaves is also planning to introduce an eco-friendly four stroke petrol engined three-wheeler during 1996-97. Deluxe and economy models of the vehicle are likely to be introduced, both in the passenger and load-carrying segments, sometime during 1997-98. The project to manufacture lightweight portable diesel engines at Ranipet in Tamil Nadu, to support the three-wheeler growth plans, has already been completed.

Greaves, meanwhile, has entered into a technical collaboration agreement with SAME spa, Italy, for the manufacture of agricultural tractors and it has already signed a joint venture agreement with the collaborator for the manufacture of diesel engines for tractors and other uses. Christened as SAME Greaves JVC, the joint venture company will have an equity capital of Rs 25 crore with SAME holding a 51 per cent stake. Greaves may also enter the small car market segment in the next two to three years through the joint venture with SAME. The company has also chalked out plans to invest up to Rs 250 crore in the next three years in a series of capacity expansions, principally in its high speed diesel and medium/high horse power engine manufacturing plants. Expenditure in 1996-97 and 1997-98 is expected to be around Rs 108 crore which will be financed through term loans of Rs 66 crore and internal accruals.

Meanwhile, the company's share price currently quotes at around Rs 50 on the Bombay Stock Exchange, discounting its 1995-96 earnings per share by 7.7 times.

HERO HONDA

Capacity Expansion

Reflecting the buoyant position in the two-wheeler industry, Hero Honda Motors, the largest manufacturer of motorcycles in the country has performed well in 1995-96, notching a 32.7 per cent rise in net sales and a 21.7 per cent increase in value of production over the previous year. A joint venture between the Munjal group and Honda of Japan, Hero Honda Motors' product line primarily consists of 100 cc motorcycles with the company commanding a market share of 8.7 per cent in 1995-96, up 0.4 per cent from last year's 8.3 per cent. Not surprising, considering that the company spends up to 2.6 per cent (1994-95: 1.4 per cent) of its value of production on advertising.

Production of motorcycles during the year under review increased from 1,83,490 vehicles to 2,30,084 vehicles, representing an increase of 25 per cent, with the company's plant operating at more than 100 per cent capacity. Sales volume also increased by 23 per cent during the year from 1,83,650 vehicles to 2,30,164 vehicles. Against this the two-wheeler industry itself registered an overall growth of around 20 per cent in 1995-96.

The company has one of the lowest operating costs in the two-wheeler industry. This is reflected in the fact that though production increased by around 25 per cent over the previous year, manufacturing expenses increased by only 17.4 per cent. Consequently operating profit increased by 26.6 per cent. Despite a 16.3 per cent increase in the company's loan portfolio, interest charges fell by 14.5 per cent depicting its optimum loan structure management. Net profit increased by 35.5 per cent over the previous year resulting in the company's earnings per share rising from Rs 9.7 in 1994-95 to Rs 13.2 during 1995-96.

Export sales also rose from 10,475 motorcycles in 1994-95 to 11,937 motorcycles in 1995-96, representing an increase of over 14 per cent. The company entered the Colombian market for the first time and also held a number of service training programmes in various countries during the year. With higher realisation, export revenue increased by a higher 30.4 per cent. On the other hand, though the company continued its status as a net importer, imports fell by 14.5 per cent during the year.

With its plant already performing over full capacity, the company is currently increasing capacity to 3,00,000 vehicles. It is also setting up a new plant with an installed capacity of 1,50,000 vehicles at Gurgaon at an estimated cost of around Rs 174 crore. The company expects these projects to be completed in 1998, after which it will have a total capacity of 4,50,000 vehicles per annum. These expansion programmes are to be financed primarily through internal accruals and a limited exposure to loan funds. With the two-wheeler market expected to increase from the current 8,00,000 vehicles to around 16,00,000 vehicles by the turn of the century, this expansion will help the company further consolidate its presence in the domestic market. With this in view, it plans to introduce three new models of motorcycles, the first of which will be a 100 cc vehicle with certain new features. The next two models will be in the 125 cc to 150 cc range.

The company's strong fundamentals and growth prospects are reflected in its share price on the bourses which currently rules at around Rs 230 discounting its 1995-96 earnings per share a healthy 17.2 times.

HINDUSTAN ORGANIC CHEMICALS

Higher Profit

Hindustan Organic Chemicals (HOC) manufactures a variety of organic chemicals which include phenol (35 per cent of total sales), acetone (22.8 per cent of sales), aniline (14.8 per cent of sales), nitroproducts (14.5 per cent of sales), acetanilide, acids, formaldehyde, chlorobenzene, acetyl products, propylene and cumene. A public sector undertaking, HOC is a market leader in practically every one of the above products. The company posted a sharp increase in profits in 1995-96 when it also achieved its highest ever capacity utilisation. While net sales increased by 28.1 per cent over the previous year, 1994-95, there was a 26.7 per cent rise in value of production over the same period. Production of phenol, the largest contributor to turnover, increased by 14.9 per cent from 37,688 metric tonnes (mt) to 43,302 mt while that of acetone, the second largest contributor to turnover, increased from 23,576 mt to 27,024 mt, a rise of 14.6

(*Rs lakh*)

Growth and Financial Indicators/ Year Ending	Greaves March 1996	Greaves March 1995	Hero Honda March 1996	Hero Honda March 1995	Hindustan Organics March 1996	Hindustan Organics March 1995
Income/appropriations						
1 Net sales	66185	46591	63103	47549	38374	29958
2 Value of production	68249	48482	60905	50042	38947	30738
3 Other income	1278	1452	795	671	1092	737
4 *Total income*	69527	49934	61700	50713	40039	31475
5 Raw materials/Stores and spares consumed	26463	17522	46239	35489	18898	16575
6 Other manufacturing expenses	29541	22455	1313	5019	6713	5227
7 Remuneration to employees	6019	4799	2580	1847	3770	2724
8 Other expenses	62	56	5680	3706	2316	2088
9 *Operating profit*	7442	5102	5888	4652	8342	4861
10 Interest	2822	2145	588	680	634	1099
11 *Gross profit*	4672	3003	5266	3860	8059	3742
12 Depreciation	930	854	1072	916	1297	975
13 *Profit before tax*	3742	2149	4194	2944	6761	2766
14 Tax provision	860	700	1560	1000	947	0
15 *Profit after tax*	2882	1449	2634	1944	5814	2766
16 Dividends	1285	858	638	497	1345	852
17 Retained profit	1597	591	1996	1447	4469	1914
Liabilities/assets						
18 Paid-up capital	4441	2964	1997	1995	6725	6718
19 Reserves and surplus	17540	17688	7622	5628	32349	27847
20 Long term loans	11038	8328	3822	4373	7931	6367
21 Short term loans	7508	7548	2962	1460	4724	2470
22 Of which bank borrowings	7008	6498	2962	1460	4724	2470
23 Gross fixed assets	16356	14389	16509	13636	51163	39426
24 Accumulated depreciation	4389	3475	6306	5243	15717	14966
25 Inventories	12359	10211	6013	7368	7274	7353
26 Total assets/liabilities	58563	53167	26164	23120	61164	51409
Miscellaneous items						
27 Excise duty	6631	5550	171	164	7724	5962
28 Gross value added	13207	9374	8363	6192	12357	7038
29 Total foreign exchange income	9565	8567	3564	2712	961	1455
30 Total foreign exchange outgo	13350	10551	6879	7264	6169	4786
Key financial and performance ratios						
31 Turnover ratio (sales to total assets) (%)	113 02	87 63	241.18	205 66	62.74	58.27
32 Sales to total net assets (%)	163 31	127 55	384.70	353 37	74.18	69 02
33 Gross value added to gross fixed assets (%)	80.75	65.15	50.66	45 41	24 15	17.85
34 Return on investment (gross profit to total assets) (%)	7.98	5.65	20.13	16.70	13.18	7.28
35 Gross profit to sales (gross margin) (%)	7.06	6.45	8.35	8.12	21.00	12.49
36 Operating profit to sales (%)	11 24	10 95	9.33	9.78	21.74	16.23
37 Profit before tax to sales (%)	5.65	4.61	6 65	6.19	17.62	9.23
38 Tax provision to profit before tax (%)	22.98	32.57	37.20	33 97	14.01	0.00
39 Profit after tax to net worth (return on equity) (%)	13.11	7.02	27.38	25 50	14.88	8.00
40 Dividend (%)	29.00	29.00	32.00	30 00	20.00	16.00
41 Earning per share (Rs)	6 51	4.91	13 19	9.74	8.65	4.12
42 Book value per share (Rs)	47 79	67.19	48.17	38.21	58 10	51.45
43 P/E ratio (based on latest and corresponding last year's price)	7 68	10 99	17.44	23.60	3.12	7.53
44 Debt-equity ratio (adjusted for revaluation) (%)	52.19	42.06	39.73	57.37	20.30	18.42
45 Short term bank borrowings to inventories (%)	56.70	63.64	49.26	19.82	64.94	33.59
46 Sundry creditors to sundry debtors (%)	109.58	113.70	206.78	403.09	24.83	42.88
47 Total remuneration to employees to gross value added (%)	45.57	51.19	30.85	29.83	30.51	38.70
48 Total remuneration to employees to value of production (%)	8.82	9.90	4.24	3.69	9.68	8.86
49 Gross fixed assets formation (%)	13.67	–	21.07	15 20	29.77	15.35
50 Growth in inventories (%)	21.04	–	–18.39	73.57	–1.07	15.50

– means not available.

per cent. Sale volume of these two products also increased from 37,317 mt in 1994-95 to 43,489 mt in 1995-96 for phenol (up 16.5 per cent) and from 22,297 mt to 27,337 mt for acetone (up 22.6 per cent). During the year, total chemicals produced by the company increased by 12 per cent from 2,72,523 mt last year to 3,04,977 mt. The company's trading division also saw a 44 per cent increase in turnover with a number of new products being added to the list. The division also carries out market seeding for new products that the company proposes to manufacture (including hydrogen peroxide, 4-4' di-phenyl di-isocyanate, PU systems, etc).

A tight leash on manufacturing expenses (up 17.5 per cent) and other operating expenses led to a 71.6 per cent rise in operating profit during the year under review. Effective cash management also helped the company post a 42.3 per cent fall in interest charges despite a 13.2 per cent rise in total loans. In spite of a 33 per cent increase in depreciation charges and a Rs 9.5 crore tax provision (1994-95: Nil), net profit improved by a phenomenal 110.2 per cent over the previous year. The company claims that the improved results were due to various reasons such as efficiency improvement, optimisation of operations, setting up of strategic business units (SBUs), productivity improvement through continuous management audit, effective management of inventory, improved energy efficiency, higher capacity utilisation and a deliberate strategy of strengthening customer relations and quality of services. The company's earnings per share rose from Rs 4 1 in the previous year to Rs 8 7 while book value increased from Rs 51.5 to Rs 58.1 over the same period. Encouraged by its performance, the company raised the dividend rate from 16 per cent last year to 20 per cent in the year under review.

The only blemish in the otherwise excellent performance of the company was a sharp fall in exports (down 34 per cent) and an even sharper increase in imports (up 41 per cent) over the previous year.

During the year, the company commissioned its co-generation and acetyl plant and managed to recover an even higher percentage of ortho-nitrochlorobenzene from wastes.

The company's strategy during the Ninth Plan period (1997-98 to 2001-02) is to further strengthen its market position by expanding its core areas of business, i e, nitrochlorobenzenes, nitrotoluenes, cyclohexylamine, phenol and intermediate feedstocks. It also has plans to enter into new growth areas.

The company's share price currently quotes at around Rs 30 discounting its 1995-96 earnings per share by an attractive 4.6 times.

MAHARASHTRA

Rising Tide of Resentment

Prakash Bal

The Shiv Sena-BJP alliance is in troubled waters, having to contend with Anna Hazare's allegations of large-scale corruption by its ministers, the judicial strictures on its conduct in the Enron renegotiation, and the sharp resentment of the Maharashtrian middle class prompted by the Sena chief's ill-considered criticism of its literary icon. While these events have shaken the ruling alliance, there is no political force in the state which can channel the popular discontent.

EARLY this week, in a span of 24 hours, the Sena-BJP government was lashed by the Bombay High Court, by Marathi litterateurs and by the common man. While dismissing the writ petition against the Enron power project at Dabhol, the division bench of the Bombay High Court passed severe strictures against the state government. A wave of anger and dismay has erupted in Marathi literary circles after Bal Thackeray criticised a renowned satirist, playwright and author P L Deshpande for his speech in which he made a veiled reference to the Shiv Sena chief's open admiration of 'thokshahi' (dictatorship). On the top of this the Sena-BJP combine has suffered a blow in the municipal council elections.

The Sena-BJP alliance had come to power on the plank of anti-corruption. As an opposition leader Gopinath Munde, the present deputy chief minister, had taken out a 'Bhrashtachar Virodhi Yatra' and had termed Enron an epitome of corruption in Sharad Pawar's Congress regime. He had promised the electorate that if they voted the Sena-BJP to power, it would throw Enron into the Arabian sea. Instead of fulfilling this promise the Sena-BJP government first cancelled the permission given to Enron after enacting a farce of an inquiry and then immediately renegotiated the deal allowing the multinational power corporation to start work at Dabhol. Now Bombay High Court has described the conduct of the state government in the whole episode as 'reprehensible'. The court has observed that "renegotiations conducted by the state government were not transparent and at every stage it is the common man who was taken for a ride by the Sena-BJP alliance by making Enron an election issue". The court has further said that the government acted not in the national interest, but in its political interests. This severe indictment by the court comes in the wake of the anti-corruption movement launched by Anna Hazare, a social activist from Ahmednagar district. This judgment would now give a fillip to Hazare's movement.

This movement has become the bugbear of the Sena-BJP alliance. Hazare had launched a similar agitation against corruption when Pawar was the chief minister. At that time the BJP had supported Hazare and its workers as well as 'swayamsevaks' from RSS had taken part in his movement. Hazare had gone on a fast at that time and demanded that the government should take immediate action against employees in the forest department against whom he had made allegations of corruption. Pawar had promised to take action and Hazare gave up his fast. But no action was taken against those employees, not even by the present Sena-BJP regime.

Hazare has a record of selfless service and his work of village development in Ralegan Sidhhi, a village in Parner taluka of Ahmednagar district has been praised all around. Hazare was in the army and had fought in the 1965 Indo-Pak war. After demobilisation he returned to his native village. That was the time when Maharashtra was reeling under a severe drought. Ahmednagar district is a drought-prone area and people from Ralegan Siddhi were affected. This spurred Hazare and he started thinking in terms of watershed management, afforestation, soil conservation, etc. He took up this challenge and transformed Ralegan Sidhhi into an ideal village. Along with this development work Hazare laid stress on literacy and the anti-liquor movement. Previously Ralegan was notorious for its liquor dens and drunkards were aplenty in the village. In fact the name of the village was originally 'Ralegan Shindi' and 'Shindi' part of the name was derived from liquor which used to be distilled from the bark of 'Shindi' trees. When the village became liquor free its name was changed from 'Ralegan Shindi' to 'Ralegan Sidhhi'.

During his work Hazare came face to face with the corrupt bureaucracy at the village and taluka levels. He realised that the major part of the money earmarked for development schemes was going into the pockets of local bureaucrats and the politicians who protect them. Since then Hazare has been grappling with this problem. He has been launching, off and on, various types of agitations against corruption. His forte is that he methodically collects evidence of corruption and malpractices and demands that government take action against guilty officers and employees. In various departments of government, viz, irrigation, forestry, agriculture there are some 'lucrative' posts, such as executive engineer of irrigation projects or in the directorate of agricultural services. Appointment to these posts is viewed as a sort of passport to prosperity. Hence there is always a scramble to get these postings. But those officers who are already working at these posts want to remain there forever. Hence to get a transfer to one of these posts or to remain on these posts, a lot of money changes hands. It has been always rumoured that a part of this booty goes to the minister concerned and hence 'auction' of these posts goes on without any hindrance. Along with this, those officers who are found to be 'inconvenient' are indiscriminately transferred. Hazare has meticulously documented the number of transfers effected and reasons behind such transfers as well as details about the various types of malpractices. From this data he has come to the conclusion that the minister of agriculture Shasikant Sutar and the minister of irrigation Mahadeo Shivankar were responsible for most of these transfers as well as other malpractices. Hence he demanded action against them and pending an inquiry asked the chief minister to remove them from the cabinet. This demand put him against Shiv Sena chief Thackeray.

The BJP had tried to hijack Hazare's movement previously without realising that it is a double-edged weapon. It tried to get some political mileage from Hazare's movement against corruption and malign Sharad Power. Shiva Sena however did not jumped on the bandwagon of any such movement. It relied mainly on Thackeray's oratorial skills to raise dust against Pawar and his Congress regime. When the Sena-BJP came to power in the state it became clear that it is no different from the Congress. This set them against activists like Anna Hazare and the clash which is taking place now became inevitable.

As is his wont Hazare first tried to convince the government to take action against the errant officials and ministers. He first met Bal Thackeray after which the Sena chief declared that a policy on transfers had become essential and he would instruct the chief minister to formulate such a policy. Hazare accepted this statement of Sena chief and announced that Thackeray was the only hope of the people in the state. This statement of Hazare raised many an eyebrow and it was thought that Hazare had been co-opted by the Sena and would help now in whitewashing all the irregular and criminal deeds of the present ruling class. When Hazare realised that the Sena chief was not

sincere he became strident and gave an ultimatum to the government to take action against the two ministers. The chief minister asked for 'hard evidence' and Hazare replied that he had already given sufficient proof and if the government were to investigate those cases then the minister's culpability could be easily established. Hazare then announced that he would undertake a fast and the chief minister panicked. To placate Hazare, he announced the formation of a committee comprising Sena chief Thackeray, BJP secretary Pramod Mahajan and Hazare himself, assuring Hazare that if the proposed committee found the ministers guilty then they would be removed immediately. This ploy of the chief minister might have worked, as Hazare was willing to participate in this committee, but for a remark made by Narayan Rane, a minister in the state cabinet, who is one of the accused in a case of murder and is close to the Sena chief. Rane's remark enraged Hazare and he questioned the sincerity of the government. Thackeray then launched a tirade against Hazare, questioning his bona fides, expressing doubts about his sincerity and giving a veiled threat to unmask financial irregularities in Hazare's organisation. Whereupon Hazare challenged the Sena chief to institute an independent probe to investigate his as well as Thackeray's financial affairs.

This exchange of words led to Hazare's fast. People from various walks of life started streaming towards Ralegan Sidhhi. It became a sort of new political pilgrimage centre. The chief minister was alarmed by the way Hazare was drawing crowds. Hence to defuse the crisis he asked the two ministers to submit their resignation letters to him, but announced that they would be forwarded to the governer only if the inquiry conducted by S W Puranik, a retired judge of Bombay High Court found them guilty. Till then Sutar and Shivankar would remain ministers without portfolios. The government asked Justice Puranik to give his report within two months and issued a notification to that effect. But Hazare declined to give up his fast and co-operate with the Puranik Commission. He demanded that there should be two more members on the commission and he would suggest the names of these two members. Along with this he also demanded that the government set up vigilance committees at the taluka and district levels. At the same time Hazare declared that he would undertake a statewide tour. The state government has rejected both these demands and the Sena chief has vowed not to allow 'his' government to "dance to the tune of Mr Hazare". This indicates that a political decision seems to have been taken by the Sena now to confront Hazare and go on an offensive. This means that Thackeray's line of thinking has again become dominant and chief minister Manohar Joshi has been forced to stop his mediatory efforts. Hazare has given up his fast and started his statewide tour and has also announced that if the government tried to obstruct his tour in any way he would launch a 'jail bharo' agitation.

After Anna Hazare openly started criticising the Sena-BJP government and asked Sutar and Shivankar to resign, there has seemed to be a divergence of views in the Sena. Thackeray had always refused to accept any of Hazare's demands viewing them as a challenge to his authority. Since Narayan Rane and Sutar are close to him Thackeray felt that his men were being attacked deliberately and that he was the real target of Hazare. Surprisingly, till last year's assembly elections, Sutar was not even allowed entry into the Sena chief's inner circle. In fact in one of his public meetings at Pune, the Sena chief had openly criticised Sutar and thundered that he was aware of his ways. This implies that the Sena chief was aware of various scandals of unauthorised constructions in which Sutar's name has been mentioned. It was believed that a close friend of Raj Thackeray, who was in charge of Sena affairs in Pune city was behind this outburst of Thackeray. At the time of elections Sutar's candidature was not initially considered. He was on the verge of joining Congress and contesting the elections and Congress also was aware of Sutar's 'winnability' and it had no qualms about allowing him to contest on party ticket. But it was argued by Manohar Joshi that every seat was valuable for Sena and those who could win the seat should be given the party's candidature. Hence Sutar became the Sena candidate on the strength of his 'winnability'. How did he worm his way into the inner circle of the Sena chief? It is being rumoured that he was instrumental in helping the Sena chief and his nephew to tide over the crisis in the Ramesh Kini affair. Therefore a demand for his resignation was not acceptable to the Sena chief.

On the other hand, the Sena chief harbours a suspicion that the chief minister did not protect the interests of Thackeray family effectively enough in the Ramesh Kini affair. He was even toying with the idea of replacing Joshi with Narayan Rane. All of a sudden interviews with Rane were splashed on the front pages of *Samna*. Joshi knows the Sena chief well and has tried to use Hazare's agitation to strengthen his position. In spite of the Sena chief declaring that no minister would resign, the chief minister asked Sutar and Shivankar to submit their resignations. Joshi even announced the setting up of an inquiry. This was not to the liking of the Sena chief. But these efforts of the chief minister proved in vain as Hazare has refused to back down.

The BJP's role in this affair has been dubious. As always the party has tried to join the movement and take control while proclaiming its support for Hazare's aims. BJP's state president Suryabhan Wahadne and national secretary Pramod Mahajan have publicly backed Hazare's movement against corruption. At the same time the party has refused to direct Shivankar to submit his resignation. BJP has a long-term strategy. The party knows that the Sena's edifice will crumble within no time after Thackeray. The party's aim is to draw a large chunk of the Sena to its fold in such an eventuality. Hence it is pandering to the whims and fancies of the Sena chief. But this strategy has its problems and they have come into full glare after the recent municipal council polls and the verbal duel between Thackeray and the well known Marathi satirist P L Deshpande.

The state government has instituted an award to be given to a person who has contributed in furthering the image of Maharashtra. The first award comprising a cash amount of Rs 5 lakh and citation was given to P L Deshpande. While replying to the felicitation the well known and widely admired satirist expressed dismay at the present situation in the state and regretted that those who have come to power through democratic means are indulging in and advocating dictatorial ways. This barb was aimed at Thackeray because he has expressed his admiration for Hitler umpteen times and has always castigated democracy advocating thokshahi (dictatorship). The Sena chief took this as a personal insult and lambasted him publicly in intemperate langauge. Thackeray declared that the state government was initially inclined to give this award to him, but he declined it and allowed it to be given to Deshpande. If Deshpande does not like my language of 'thokshahi', thundered Thackeray, then why did he accept the award? This episode has created a wave of anger among the Marathi middle class to whom P L Deshpande is an icon. They are not ready to countenance any insult to their icon. This middle class has been the backbone in Sena's winning streak in Mumbai, Pune and Konkan region. Hence in the face of this counter-criticism the Sena chief has backed down to some extent and has tried to make amends. But this event reflects the mood of the people in the state and their rising resentment against the ways and means adopted by the Sena chief, his family members and their cohorts. The setback which the Sena and the BJP has experienced in the recently concluded municipal polls also bears testimony to this changing trend. Sena has been trounced in two of its bastions, viz, Konkan and Marathwada.

The tragedy is that no other political party in the state is in a position to channel this rising tide of resentment. Congress has remained in doldrums after the defeat in the assembly elections. The Janata Dal has no presence in the state and is bereft of any organisation. Communist parties have only small pockets of influence. The Samajwadi Party of Mulayam Singh Yadav has a presence in Mumbai only and that too in the Muslim majority areas. Though the Samajwadi candidate won the assembly bye-poll by defeating the Sena candidate, the party cannot pose any serious challenge to the Sena-BJP alliance. The real test of this alliance will come early next year when Mumbai and Thane Municipal Corporation elections are due. If the Sena suffers a setback in these elections, then that would herald a new era in state politics.

Open Letter to Home Minister

Foreign Funds and Threat to Voluntary Sector

The Foreign Contribution Regulation Act under which the voluntary sector receives a large amount of funds needs to be urgently amended to prevent misuse of foreign funds and to bring a degree of accountability in the sector.

DEAR MR GUPTA,

I am writing about the urgent need to amend the Foreign Contribution Regulation Act (FCRA). As you know over Rs 2,000 crore comes in every year from foreign donor agencies for rural development purposes through the FCRA and over 10,000 so-called registered voluntary groups receive this money With too much money coming in, with no self-discipline or public accountability, with some groups building colossal empires the spirit of volunteerism is being slowly destroyed Unless the government steps in with suitable amendments to the FCRA I fear corruption, co-option (by foreign donors) and confusion on a massive scale

Its been over 10 years since the FCRA was put into effect and we like to think we have learnt form this experience It was unfortunate that when the FCRA became law an open debate on the need for a code of conduct was agitating the voluntary sector and unscrupulous groups who were against any code compromising their lifestyle deliberately confused the issue thus successfully delaying any code from being adopted unanimously Those opposed to any code enforcing discipline and accountability in desperation formed Voluntary Action Network India (VANI) and the individuals who opposed the code of conduct at that time were backed by massive foreign money. Today they still receive crores of rupees and the lifestyle of those living in the urban cities could match with any senior company executive in a multinational firm. If poverty was big business in the 1980s volunteerism is big business in the 1990s with every non-gazetted officer (ngo) starting an NGO. What a sad and tragic state of affairs that government should believe such immoral and hypocritical people to speak for grass roots groups.

It is a question of self-respect. Do we want the spirit of volunteerism to be up for sale? Do we want the fantastic work that small groups are doing showing such tremendous courage and struggling with no money (government or foreign) against injustice, discrimination, corruption and inequalities to be equated and identified with such third rate people? Surely they deserve better from this government. The voluntary groups have been splintered, they have lost their idealism and identity, they have compromised their values, their simplicity and their integrity all because too much foreign money is available too easily. All along we are watching the moral rot being spread by such scoundrels speaking of the exaggerated fears of the control of the state.

Surely it is time for the state to step in and you as home minister has the responsibility to see such scoundrels do not get away The FCRA is full of loopholes which let them get away with it while genuine small village groups suffer. They do not have lawyers and accountants costing lakhs to protect them. They are all at the mercy of 'thanedars' and policemen who have no idea of the type of work voluntary groups do – even today. So groups who do use foreign funds wisely are consistently harassed because they come face to face with vested interests at the village level. They are fighting bonded labour, non-payment of minimum wages, untouchability, corruption of village officials, embezzlement and other such issues for the government because the administrative machinery is on the verge of collapse. Yet they are being hounded while laid back criminally rich foreign funded groups receiving funds from the World Bank and the UN doing irrelevant work such as advocacy (whatever that means), training, (non)participatory research and producing glossy reports, studies and newsletters no one reads go scot-free. Where is your sense of justice?

Now as a result of indecision, neglect and delay the threat to the voluntary sector is from within. More than 90 per cent of the groups are totally dependent on foreign funds. They have no other source of income, they have not even thought of raising and generating funds of their own from within the country and as a result become professional beggars running around raising money by any means for whatever cause just to keep their defunct organisation alive. Stretched far beyond their means because easy foreign money is available they have become institutionalised, inflexible and incapable of innovation of any kind. Arrogant to the core when they should be supplementing government effort they are competing with the district administration in some states. Morally bankrupt they think coverage and quantity and massive expenditure is a substitute for quality. Now they are justifying themselves by commissioning studies titled 'Big is Beautiful'

Regrettably a tighter FCRA is the only way of controlling these monsters and setting an example. If the voluntary groups cannot put their act together if they cannot see the writing on the wall and the poor example the well-funded groups are setting for the smaller village groups then the only way to make them understand is to hit them on the head with the law. Let them scream and rant and rave in international forums abusing the government and the state: let them organise seminars and workshops and churn out papers how their version of volunteerism is being threatened: how civil society (that is what it is called these days) is in for a bad time and dark days are ahead. Its all hot air: they have the platform, the ear of the press and the control of the printed word outside India to some extent because there are scoundrels like them in every country of the world But believe me, minister, it will send a powerful positive message to the voluntary groups at the village level who see this open abuse of a nation's self-respect and pride by a handful of opportunists with great concern and they will applaud the steps you have taken. Privately and silently the foreign donor agencies would also welcome this move towards control, discipline and public accountability, those whose intentions in this country are in any way evil will leave which is what we want. Just to satisfy the whims of a few, just to quieten the voices of a handful who have the potential to temporarily give India a bad press should the whole voluntary sector be held to ransom?

Is it the policy of the government to privatise and commercialise the voluntary sector? Through the misuse of the FCRA this is exactly what is happening. We know $ 500 is perhaps the poverty level in the north but it is what the secretary to the government of India gets today. Anyone who is on the 'dole' unemployed and living off the social security of the state gets this amount in the north but is it ethical to claim this amount as salary in India in the voluntary sector if they claim to be working for the rural poor, the oppressed millions who barely make $ 30 a month if they are lucky. It makes them parasites getting money in the name of the poor and living in luxury. And your government, minister, is watching this impotently. For four years the FCRA is being amended. It's time to act now.

What are the areas that need to be addressed in the amended act?

First, the amount of funds one organisation can receive from abroad. There must be a limit, an upper limit, even if it means the organisation must split into several smaller entities. An organisation that does not have the capacity to raise funds from within the country – government, industry, banks – it should not be entitled to receive foreign funds. This will reduce the unhealthy dependency on foreign funding The rule

should be that the organisation can receive as much foreign money as they can raise from within the country. At least this will drastically limit the proliferation that is taking place today of hundreds of groups drawing more than Rs 5 crore with no potential to be self-reliant.

Second, the act must stipulate the ceiling on administrative expenses. The money has come for the poor If over 50-60 per cent goes on salaries what actually reaches the poor? The executive committee of the Council for Peoples' Action and Rural Technology (CAPART) – on the verge of coming apart – has approved the filling of a Transparency Form obliging the organisation to give greater financial and administrative details. Before any project is considered for financial support by this parastatal organisation of the department of rural development greater transparency is expected. After all public funds coming from abroad are being spent in this country. Along with FC3 the Transparency Form must be filled and sent to the ministry of home affairs. If this is violating the fundamental rights of an Indian citizen then this objection could be read as violating the trust the foreign donor expects from the group which certifies that the public donation from abroad will be well spent. This is not a question of rights; it's a question of public accountability and transparency in financial and administrative matters. What was debated in the code of conduct campaign in the late 1980s has been included in the Transparency Form that CAPART has accepted today. It has taken a decade for the system to accept this in spite of the objections from within the voluntary sector. If CAPART has accepted it so can the ministry of home affairs and include it in the amended FCRA.

Third, all this information must be accessible to the public. They have a right to this information since it does not endanger the security of the state. How foreign and Indian funds have been spent on rural development, the financial and administrative details of the organisation contained in the Transparency Form should be open to public scrutiny under law. Any village panchayat can ask for copies of documents from this organisation on any issue – salary structure, staff benefits, bills, vouchers, receipts pertaining to any project supposedly spent on rural development. It is not only the job of the police to monitor and demand records from the organisation receiving foreign funding: it is the right of the rural communities as well. Today colossal organisations receiving massive foreign funding think they are above the law. Their audit statements and annual reports are secret, their staff strength and what they pay them are secret. Anyone not part of the 'inner circle' who questions too much, who seeks answers especially in those organisations that claim to be participatory are thrown out. The contrast between management and staff, the communication and credibility gap is enough to breed resentment, discontent and anger: the duplicity and hypocrisy is carefully concealed and the fear of god is put into them – if they dare speak out they suffer the consequences of dismissal, of public humiliation, of the doors being closed to them by other organisations. Where is the spirit of volunterism today? where have honesty, sacrifice and courage gone? Who are the so-called successful role models that youngsters copy today in the voluntary sector those who have made money, those who run large organisations, those who travel to seminars and workshops abroad, those who speak smoothly but have nothing to show on the ground. Look what easy foreign money has done.

Home minister, I hope you are reading this carefully. I speak with 25 years of interacting with foreign donor agencies, hearing their anguish and speaking with village groups. I know the politics of international agencies and how they view India. So believe me what I have written should not be taken lightly. It is the truth. Acting on these suggestions will give us a little more self-respect. I look forward to hearing from you.

Bunker Roy

How Relevant Are Rural Water Supply Programmes?

S K Pant

An evaluation study of the rural water supply programme in eight districts of eastern UP reveals a low level of coverage and poor maintenance record. If the safe water programme is to be effectively implemented, greater participation from the local people, especially women, is needed.

IN a country where around 1.5 million children below the age of five years die due to water-borne diseases every year, and the nation loses 1,800 million person-hours (over 200 million mandays), the supply of safe drinking water has been given a high priority in Indian planning. Responsibility for providing safe drinking water in rural areas rests with the states, and funds have been provided in the state budgets right from the commencement of the First Five-Year Plan It was envisaged that the states would build up the necessary infrastructure to attend to the problems of water supply and sanitation. In spite of all these efforts, it was observed during the mid-1960s that these schemes were being implemented only in villages with easy access. The Government of India therefore requested the states to identify hard-core problem areas and provided assistance to the states to carry out special investigations during the Fourth Plan. In 1972-73, in yet another effort to accelerate the pace of coverage, the centre introduced the Accelerated Rural Water Supply Scheme (ARWS) to cover the problem areas with 100 per cent grant.[1] In August 1985, the subject of rural water supply and sanitation was transferred from the ministry of urban development to the department of rural development with the basic objective of securing the implementation of the programme and its integration with other rural development programmes.

Despite the impressive coverage of rural areas in subsequent plans, the conditions prevailing in rural areas remain far from satisfactory. Just when it was thought that there were hardly 500 villages left to be provided with safe drinking water (at the commencement of the Eighth Plan), the subsequent feed-back from the field depicted a different picture. Many of the previously covered areas had fallen back into the 'no source' (NC) category, and these figures assumed alarming proportions which subsequently called for another round of investigation.

Accepting the norms laid down by the Rajiv Gandhi National Drinking Water Mission for classifying habitations into partially covered (PC) and fully covered (FC) categories, as well as for identifying sources as 'safe sources', the study described here evaluated the current status of safe water in eight sample districts of eastern Uttar Pradesh. Specifically, it focused on: (a) the pattern of NC (not covered) habitations; (b) the level of water supply and types of system being used; (c) the problem of non-perenniality, if any, and related issues, viz, period of non-operation, water quality, and environmental problems, and identification of plausible factors; and (d) community participation, women's involvement, communities' perception of the programme agenda.

The study, undertaken by the G B Pant Social Science Institute, Allahabad, on behalf of the Rajiv Gandhi National Drinking Water Mission in 1994-95, covered 3,715 habitations from the following eight districts of eastern UP: Azamgarh, Bahraich, Basti, Gorakhpur, Gonda, Maharajganj, Mau and Sidharathnagar.

Of these, 35.8 per cent were main habitations and 64.2 per cent were 'other' habitations. The survey revealed that only a little over 31 per cent of the habitations have been provided with 100 per cent coverage. Moreover, the progress achieved in the main habitations has been much better than in the 'other' habitations. While 45 per cent of main habitations qualified for the 'FC' norm, the level was barely under 24 per cent in the other habitations. However, the survey revealed that in hardly 0.02 per cent of habitations, less than 10 per cent of the population had been provided with safe water supply, which indicates the progress of the nodal agency. But the emphasis has been on the coverage of main habitations. Even the inter-regional comparison of coverage pattern shows uneven progress, with the highest being at just under 60 per cent achieved in Basti and lowest in Mau district at a little over 12 per cent.

The study of distribution pattern of resources is yet another indicator for evaluating the nodal agency's progress. A sizeable proportion of the inhabitants in the region (over 75 per cent) have to depend on sources which have not been declared to be safe sources. Just 23 per cent of habitations had access to safe drinking sources, and the proportion depending on unsafe sources was much higher in districts like Gonda, Mau and Maharajganj, where over 88 per cent and 82 per cent of local inhabitants were exposed to unsafe sources, respectively.

The analysis also shows that the entire region had a very low level of incidence of non-perenniality. In all, only 11 sources accounting for a little over 0.11 per cent of the total sources were facing this problem, out of which 56 or 54 per cent belonged to main habitations and the remaining 45 per cent were located in other habitations.

The districts which suffered most from this problem were Azamgarh, Gorakhpur and Maharajganj. In addition, the pattern of defunct resources reveals the shocking state of upkeep of these precious resources.

The success of any programme depends to a large extent upon the extent to which it motivates the people of the area and induces them to take an active part in the developmental programmes initiated in their region. The study of participation of communities in the region is not encouraging, as only a little over 36 per cent of the inhabitants in the entire region had been involved in the planning, selection of location, etc, of which the level of participation in the main habitations was almost twice of what it had been in the other habitations. Similarly, community participation in other sample districts showed a marked variation, with Basti heading the overall list and Mau finishing at the bottom.

The other aspect which the study highlights is the inhabitants' total indifference or antipathy towards the operation and maintenance part of the programme. Only 16 per cent of the inhabitants expressed their willingness to participation. Hardly 22 per cent of the sources have been properly looked after. It was also shocking to note that there are no records of 16 per cent of the resources, it is presumed that these may have been installed by other agencies working in the region whose details are not with the nodal agency. Fourteen per cent of the sources were being maintained by the nodal agency, a little over 6 per cent by block officials, whereas the proportion of NGOs operating in this area was less than 1 per cent.

Similarly, the inhabitants' indifferent attitude towards the programme could be seen in the extent to which they volunteer to maintain the resources implemented within their region. The study shows that a little over 5 per cent of inhabitants had agreed to maintain these resources; once again their ratio was much higher in main habitation as compared to their counterparts. However, there has been a shift in the stand of inhabitants on the question of payment for

the maintenance of resources. Around 22 per cent of the inhabitants expressed willingness to share the burden of maintenance.

The development of the region on a sustainable basis is possible only if women also participate in the programme in a big way. A higher level of female participation ensures brighter chances of success. However, the study of female participation in the programmes in the region shows a dismal picture, and could be one of the cardinal factors affecting the performance of the programme. It could be seen that women have virtually been sidelined, as their involvement for the region as a whole was barely 1 per cent (0.81 per cent to be precise). What was really shocking was to see that in Sidharthnagar and Mau their participation was nil.

The study clearly shows that the performance of the normal water supply programme in the region has been somewhat disappointing. However, before arriving at any conclusion it would be befitting to examine some of the key issues. The analysis clearly shows that one of the prime reasons for the poor performance has been the local inhabitants' poor response to these programmes. According to them, the venue selected for installing the public stand post gets frequently shifted to a new place for no apparent reason. They allege that this takes place at the behest of a few influential people, who with the passage of time, start treating these resources as their own property. This was partially corroborated by the nodal agency during the course of discussion. According to them, since the agency has no budgetary provision for maintenance of the resource, they have to depend on local resources, which only a few influential people could afford. The price of installing the new handpump generally takes about three to four days and takes the assistance of at least four men. The task of feeding these personnel, therefore, lies with local inhabitants. This situation is exploited to the hilt. However, according to the agency such instances do not happen frequently.

Another factor contributing to poor performance is the deliberate omission of local inhabitants at the crucial 'gaon sabha' or village council meetings, during which all major decisions and programmes for village development are chalked out. The inhabitants, by and large, claimed that they are often not informed on time about such meetings; as a result they seldom participate.

All these considerations have forced a sizeable proportion of the population to utilise 'other' sources which are highly unsafe, and it was not surprising to find every alternate household having a shallow handpump at its doorstep. This not only exposes the inhabitants to various kinds of health hazard but also lowers the image of the nodal agency in the eyes of the public. As the region has not experienced any outbreak of water-borne epidemics in recent times, the concept of 'safe' sources has not been seriously entertained by the inhabitants. However, there have been a few stray cases in two districts, Maharajganj and Gorakhpur, in which the water discharged from shallow handpumps contained excess iron content as shown by its physical appearance. Similarly, in Khalilabad tehsil of Basti district and in Nawabganj tehsil of Gonda district, the water emanating from shallow handpumps contained some foul smell, which may have been because those places had sugar factories in the vicinity and their discharge seems to have affected the first strata of the underground water table.

The study also highlights the overwhelming priority the 'main' habitations got over the 'other' habitations. This may be due to locational advantage, i e, better infrastructural facilities and more importantly proximity to power, as it was observed that the representation of these areas in the gaon sabha or village councils was regular and 'gram pradhans' generally hailed from these habitations. In the light of the above observations, it would be better if the other habitations also get a chance at representation; for this purpose the post of gram pradhan could be on a rotation basis.

The norm of classifying habitations into partially covered and fully covered based on distance appears to be quite unrealistic, since it does not reflect the actual programmes of the nodal agency. It is mainly women who find this distance quite inconvenient to trek, besides attending to other household chores. Moreover, the distance as measured by the nodal agency is based on a 'straight line pattern , which is not in conformity to the ground realities. These habitations, for all practical purposes, remain NC habitations. Therefore, it is argued that it would be appropriate if this distance norm is further brought down to, say, 150 to 200 metres, which is possible only if more such public hydrants are installed and their distribution is evenly marked.

The study also observed that apart from the nodal agency, there were other agencies or co-operatives/organisations which were engaged in similar work. However, what was most disturbing about their functioning was the total lack of co-ordination between them; this may be one reason for the poor upkeep of these resources, as one agency does not keep any record of the previous one's work. As a result, the work at times, gets duplicated, which limits the scope of the programme. Hence, if some sort of co-ordination is evolved between various agencies in the region, not only will the performance of the programme improve but its coverage will be considerably enhanced.

It was also noted that though the agency provided mechanics at each block with the primary function of attending to defunct sources, they had a very large area to attend to, which at times became quite difficult if not altogether impossible for them to cover within the given time-frame. Since the nodal agency did not have provision for allowances, the mechanics gradually lost interest in the work and subsequently had to rely on local inhabitants' resources. Besides, the callous attitude adopted by the inhabitants in not relaying information in time also compounded the matter, and the task of rejuvenating defunct sources naturally suffered. In this regard, it could be suggested that the mechanics may be posted at the village panchayat level, which will decrease their area of work and improve their efficiency

The nodal agency's policy of not permitting mechanics from outside to attend to defunct resources also spelt disaster for the programme and needs to be modified because it is based on unsound premises. It is true that the repair of hydrants requires specialised training and capital intensive accessories, which the local mechanics lack. But given the present scenario, it would be quite pertinent to encourage local talent to emerge under their supervision. This gesture would help to overcome the problem of the heavy load on agency mechanics, and would subsequently promote a sense of belonging, responsibility and interest in these resources among the inhabitants.

Similarly, the study shows that the rate of participation by non-government agencies has been minimal. Their integration into the rural development programme would not only help in tiding over many problems which the agency faces, viz, under-staffing, lack of co-ordination, etc but would lend some credibility to it in the eyes of the inhabitants. Likewise, their services could be utilised in the areas of creating general awareness, promoting health, hygiene, and education.

Note

1 The ARWS is a centrally sponsored plan scheme supplementing the efforts of state governments in providing drinking water in rural areas. During the Sixth Plan, the aim was to provide at least one source in all the 2,31,000 identified problem villages that had remained uncovered at the commencement of the Sixth Plan. With intensive efforts and investment to the order of Rs 2,457 crore (Rs 1,538 crore under state sector MNP and Rs 919 crore under central sector ARWSP), it was possible to cover 1,92,000 problem villages. However, about 39,000 hard-core villages spilled over to the Seventh Plan.

National Renewal Fund and Welfare of Working Classes

K S Chalam

With the industries not taking skill upgradation seriously, and most of the amount obtained under voluntary retirement scheme being exhausted in discharging family responsibilities, the workers, especially those belonging to the SC and OBC categories, hardly stand to benefit from the National Renewal Fund.

THE structural adjustment programme (SAP) initiated by the government in the 1980s was formally declared as new economic policy (NEP) in June 1991 with the declaration of the industrial policy. The 'commanding heights' of the public sector was reduced to the ground level and the private foreign investments were given unbridled entry into the economy. In fact, the slowing down of investment in public sector started in the 1980s in terms of the decline in fixed capital formation compared to the earlier periods. This has affected the capacity utilisation – which is reported to be less than 75 per cent – of the public sector. Several of the public sector units and their managers are helping to improve the capacity of the private sector, and also helping a contractor class to emerge through its sales outlets. Thus, the performance of public sector units in terms of rate of return and other indicators has been in the red. This promoted many public sector tycoons to recommend to the government for the slowing down of investments and reduction of recruitment into the public sector. Some of these policy-makers were involved in the financial scam of 1992.

The support to the Mandal report by the pro-reservation groups created a situation wherein it was imminent for those groups to occupy positions of power and command in the public sector. It was unpalatable to the ruling masters, and the economic crisis prevailing around 1990 was used to wean away the public sector. Thus, the weaker sections were subjected to double marginalisation: retrenchment on one hand and reduced opportunities of entry into the public employment on the other. Anticipating this, the government introduced in 1992 National Renewal Fund (NRF) for the welfare of these rationalised workers.

A major thrust of the NEP is privatisation of public sector. It is maintained that fiscal deficit is the real problem that pushed the policy of privatisation on the government agenda. The easiest way the government thought to overcome fiscal deficit and to some extent from the pressure of inflation is through divestiture of state enterprises. A total amount of Rs 4,950 crore has already been disinvested to the public sector financial institutions by March 1994.

Data presented in Table 1 show the magnitude of the public sector employment. Further, the rate of growth of employment in this sector has been declining particularly after the NEP. A considerable proportion of these employees are opting for voluntary retirement scheme (VRS) of NRF.

What Is National Renewal Fund?

After introducing the new industrial policy (NIP) the government realised the importance of initiating a worker safety net to meet the adverse affects of NIP. In fact, the NIP-1991 declared, "government will fully protect the interests of labour, enhance their welfare and equip them in all respects to deal with technological change. Intensive training, skill development and upgradation programmes will be launched." It is further stated that the government will establish a national renewal fund with a substantial corpus. The main objective of this fund will be to ensure that the cost of technological change and mobilisation of productive apparatus does not devolve on the workers. The NRF, it is envisaged, would protect the interests of the workers and provide a social safety net. The broad objectives of the policy are as follows:

(1) To provide assistance to cover the costs of retraining and re-deployment of employees arising as a result of modernisation, technology upgradation and industrial restructuring.

(2) To provide funds, where necessary for compensation of employees affected by restructuring or closure of industrial units both in the public and private sectors.

(3) To provide funds for employment generation schemes both in the organised and unorganised sectors in order to provide a social safety net for labour needs arising from the consequences of industrial restructuring.

The NRF, to begin with, took contributions from government, financial institutions, insurance companies and industrial undertakings. In the first year of its existence, the fund was restricted to the payment of VRS in the central public undertakings. A sum of Rs 829.66 crore was allocated during the year 1992-93. In the year 1993-94, an amount of Rs 830 crore for VRS, Rs 50 crore for counselling, retraining and redeployment and Rs 140 crore for worker compensation payments arising out of total or partial closure of industries under BIFR orders were allocated. At the operation level, the NRF is divided into the national renewal grant fund (NRGF) and employment generation fund (EGF). The NRGF looks after the immediate requirements of labour in sick units. The funds will be disbursed in the form of grants to (a) assist employees affected by technology upgradation, restructuring, etc, and through approved schemes for retraining, redeployment and counselling, (b) compensation payments to employees affected by rationalisation of industrial undertakings, (c) VRS payments, and (d) interest subsidies to enable financial institutions to provide soft loans for funding labour rationalisation.

Table 1: Employment in Public Sector

(In lakh)

Year	Centre	State	Q Govt	Local Bodies	Total
1960	20.90	30.10	7.70	11 70	70.50
1970	27 20	39.90	17 90	18.50	103.70
1980	31.80	54.80	43.04	20 80	150.07
1985	33.30	62.80	54 90	21.60	172.70
1989	33.89	68.90	59 99	22.38	185.16
1990	33.97	69.79	61.73	22.23	187.72
1991	34.10	71 12	62 22	23 13	190.57
1992	34.28	71.90	63.93	21.98	192.10
1993	33.83	72.93	64.90	21.60	193.26
1994	33.92	73.37	65 14	22.02	194.45

Source: *Economic Survey*, various issues.

Table 2: Number of Factories Registered under Factories Act in Visakhapatnam District as on December 31, 1994

Name of the Area	Total No of Factories			Total No of Workers Employed		
	Public	Private	Total	Public	Private	Total
Visakhapatnam:						
Urban	46	172	218	23,270	5,271	28,541
Rural	11	211	222	22,391	3,327	25,718
VRS/sick	13	2	15	2,875	350	3,225

Source: *Hand Book of Statistics, Visakhapatnam District, 1993-94*, the chief planning officer, Visakhapatnam.

The EGF is used for approved employment generation schemes for both organised and unorganised sectors. This may include (a) special programmes designed to regenerate employment opportunities in areas affected by industrial restructuring, and (b) employment generation schemes for the unorganised sector in defined areas.

Both the categories of NRF will be in operation for a limited period of maximum 10 years This is conceptualised as the insurance funds for employees. In order to operationalise the scheme, the department of industry, GOI, has identified a total of five agencies, including NGOs, to carry out the mandate of the NRF in five major locations where outflows of workers are considerable. They are Ahmedabad, Mumbai, Calcutta, Kanpur, and Indore. The ministry of labour through DGE and T has submitted a scheme for training of workers in 15 ITIs and six ATIs to cover 5,300 workers with a budget estimate of Rs 158.40 lakh. The identified nodal agencies in the 5 locations have started employee assistance centres (EAC) to help the rationalised workers through retraining, redeployment and couselling services. The Indian Council of Small Industries, Calcutta, is operating six centres in east India, including Visakhapatnam One important thing that emerged out of this process is that an institutional approach has been initiated by the government to help the rationalised workers.

The NRF has now created a positive situation in the industrial economy of the country where several industrial undertakings are going in for the introduction of VRS in their organisations. Some of the employees are tempted to go in for VRS. Some sick units are declaring lay-offs and prompting the employees to approach NRF. This has been to a certain extent responsible for irrationalisation of workers. The workers are thrown out of employment on the basis of the obsolete nature of the labour skill which may not suit the undertaking in a changed situation. But, the undertaking is neither taking interest nor moral responsibility of retraining and rehabilitating the rationalised worker. The industry is pushing the responsibility on the government. The liberalisation policy in its anxiety to modernise, restructure and globalise the products of Indian industry is now wasting precious labour force which could have been modernised through retraining and on-the-job training. Precious skills and abilities of the retrenched workforce are equated with worn out physical capital which may not be susceptible to repair or modernisation. But human beings are capable of learning and are subject to modification of their knowledge, skills and application of these in producing more output. But the current euphoria for restructuring does not have the time to think on those lines. As a result, the number of rationalised workers is expected to increase. So far 75,000 workers have taken VRS, mostly in the textile sector as per *Economic Survey 1995-96*.

Rationalised Workers in Public Sector

The VRS is popularly known as golden handshake. Extreme market competition and technological developments in industrial sector have brought in frictional unemployment. These changes have adversely effected groups and castes which are vulnerable to such sudden developments. On the basis of a case study conducted in Visakhapatnam, one of the industrially advanced cities of Andhra Pradesh, an attempt is made here to examine these developments.

There are 430 small and large industries located in the Visakhapatnam city with a capacity of 64,359 employees. Out of these, Visakhapatnam Steel Plant (VSP) alone employs 17,454. The VRS was introduced in public sector units (PSUs) in 1989. But it was effectively implemented from 1992 after the value of VRS amount was enhanced under the NRF policy. This has tempted many of the disadvantaged groups to opt for VRS as they were not properly oriented nor had they imagined about the long-term consequences of VRS.

Out of the total industrial units in Visakhapatnam, only PSUs are implementing VRS. There are 13 PSUs which have implemented the VRS so far. Two private units have been declared sick (see Table 2). In these 15 units, around 3,225 people have been affected by the NEP. The two private units became sick after 1991 due to extreme competition in the market and other reasons. A random sample of 10 per cent of the total workers affected by the NEP, which comes around 354, was collected. The analysis is made on the basis of the 353 (first excluded) sample size. A questionnaire was designed and the information collected from the following organisations: Hindustan Shipyard (HSL), Visakhapatnam Port Trust (VPT) Hindustan Steel Works Constructioi (HSCL), Indian Oxyzen (IOL), Marine an Communications Electronics (India (MACE), Andhra University (AU), Bhara Heavy Plates and Vessels (BHPV), Doc Labour Board (DLB), and others.

The information relating to the VR workers was collected from the organisatio and the personal particulars from the worker at their residences.

Of the VRS workers there was only on employee from the ST category with SSL qualification. He took voluntary retiremen at the age of 53 from HSL as carpenter There is no voluntary retired woman worke except from MACE, a sick unit of AI government (see Table 3).

Table 4: Number of Dependents in the VRS Family (Caste Categorywise)

No of Children	Community SC	OBC	Others	Tota
No Child	1	11	5	17
	(2 2)	(6.6)	(3.5)	(4 8
1	1	19	5	33
	(2 2)	(11 4)	(3 5)	(9.3
2	10	33	29	72
	(22.2)	(19 9)	(20.4)	(20 3
3	15	44	39	98
	(33 3)	(26 5)	(27 5)	(27 7
4	13	39	33	85
	(28 9)	(23 5)	(23 2)	(24 0
5	5	13	14	32
	(11 1)	(7 8)	(9 8)	(9 0
6	0	7	8	15
	(–)	(4 3)	(5 6)	(4.2
7	0	–	1	1
	(–)	(–)	(0.7)	(0 3)
Total	45	166	142	353
	(100 00)	(100.00)	(100 00)	(100.00

Note: Figures in brackets are percentages.

Table 3: Organisationwise and Communitywise Distribution of Voluntary Retired Workers

Name of the Organisation	Community SC	ST	OBC	Others	Total
HSL	35	1	93	57	186
VPT	4	–	18	12	34
HSCL	2	–	9	20	31
IOL	1	–	8	10	19
MACE	2	–	24	24	50
AU	–	–	8	13	21
Others	1	–	6	6	13
Total	45 (12 71)	1 (0 29)	166 (48.89)	142 (40.11)	354 (100 00)

Note: Percentages in brackets.

Table 5: Educational Status of VRS Workers by Community

Community	Educational Status Illiterate	Below Matric	Matric and Above	Degree	PG	Technical Diploma	Total
SC	12	23	6	1	–	3	45
	(13.04)	(17.97)	(6.82)	(4.54)	–	(14.28)	
OBC	45	69	35	9	–	8	166
	(48.91)	(53.91)	(39.77)	(40.91)	–	(38.10)	
Others	35	36	47	12	2	11	142
	(38.05)	(28.12)	(53.41)	(54.55)	(100.00)	(47.62)	
Total	92	128	88	22	2	21	353
	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	

Note: Figures in brackets are percentages.

Out of the total of 354, 45 persons (12.71 per cent) belong to SC category, 166 (46.89 per cent) belong to OBC and the remaining 40 per cent belong to the other communities including the ones who have not specified their caste. Of the total 354 workers 62 per cent were employed in two major public sector units, Hindustan Shipyard and Port Trust. This shows clearly that majority of the affected workers belong to socially disadvantaged groups of SC and OBC in the PSUs. Though the representation of these communities in the existing employment structure does not reflect their proportion in population or the 50 per cent reservation quota, the retrenched VRS and sick unit workers are found to be more in proportion to the workers in the units due to the NIP. In their personal interview, workers informed that most of them were receiving a salary in the range of Rs 1,500 to Rs 5,000 per month at the time of VRS As Table 4 shows 85 per cent of the workers have more than one dependent in their families; 73 per cent of SC workers' families have more than two dependents and 62 per cent of the OBC workers' families have similar status. Some of these dependents do not have sufficient educational background, making the VRS families among SC and OBC groups vulnerable to deprivation and destitution. The assistance offered to these VRS families is of limited use as most of them are past their prime and are not in a condition to pursue any wage employment. Further, most of them utilise the VRS money for marriage of their daughters or for getting education or employement in organised sector for their sons by offering bribes. Therefore, the NRF scheme hardly affords them a little investment required for self-employment.

The data regarding the educational background of the affected workers are presented in Table 5. It is noteworthy that not even a single post-graduate worker comes from socially disadvantaged groups. Out of the total illiterate workers, 30.04 per cent belong to SC, 48.91 per cent to OBC and 38.05 per cent to other communities. SCs constitute mere 6.82 per cent of workers with above matric qualification. There is only one graduate from SC. Among the technically qualified people 14.28 per cent are SC, 38.10 per cent are OBC and 47.62 per cent are from other communities. It is clear from this Table that majority of reserved category workers who are affected by the policy are technically qualified.

The most striking feature of the affected workers is that the socially disadvantaged groups who have entered the organisation with skills such as welding, carpentry, gas filling, dipper feeder, fabrication, etc, have ended up in VRS after 10 to 25 years of service in the same cadre or a little higher, whereas those from other communities as those are retiring as fitter grade I, charge head, junior engineer, foreman, senior assistant, head typist, etc. This kind of upward mobility among the other communities *vis-a-vis* disadvantaged groups shows that there is discrimination in the promotion policies of PSUs. Some of the VRS workers who are coming for retraining under NRF have complained that this invisible discrimination affects their prospects for promotion in the organisation where they are working. The atmosphere of discrimination and apathy towards the socially disadvantaged groups is also forcing most of the workers belonging to these groups to opt for VRS. Some of them are entering into their traditional caste occupations after securing VRS. In fact, reservations have not been implemented for OBCs in all the PSUs where the VRS is now being implemented. This means that the limited number of workers from backward artisan communities who entered PSUs on their own merit are now being thrown out of employment due to NEP. This is going to adversely affect the OBCs as the circumstances demotivate the younger generation to go in for higher education and job employment.

The welfare of the working class is seriously affected by the NEP. The NRF introduced as a safety net has not been able to strengthen the economic conditions of the worker. Further, a peculiar situation of reverse class formation is taking place as most of the VRS workers are getting back to the original caste occupations for succour and security. This is the most adverse effect of liberal industrial modernisation on a caste-based society.

The SAP has resulted in job loss and income deprivation. The more serious aspect of this impact, as revealed from the case study, is that the socially disadvantaged groups of SCs and OBCs are severely affected. The NRF is now creating a situation in our social life wherein de-caste workers are being made conscious of their caste after opting for VRS.

UKRAINE

New Constitution Enshrines Right to Property

Stephen Steiger

By instituting the right to private property and entrepreneurship, the new Ukrainian constitution has removed the last vestiges of communist regime and paved the path to free market economy.

AFTER an unprecedented 23-hour session, the Ukrainian parliament adopted the country's first post-Soviet constitution on June 28, ending four years of resistance by the communists and averting a referendum called by president Leonid Kuchma. The new constitution guarantees the rights of private property ownership and entrepreneurship among other measures designed to establish a free market economy.

"Wisdom has triumphed today", the beaming president told law-makers after the prolonged applause that greeted the vote of 315 to 36, with 12 law-makers abstaining.

In one of the first official acts to bring Ukraine's public life into line with the new constitution, Kuchma nominated Pavlo Lazarenko as prime minister. Kuchma has unilaterally appointed Lazarenko as premier on May 28, under the extraordinary powers he was given last year under Kuchma's "constitutional contract" with parliament. The new 52-page constitution requires that the parliament must confirm the president's appointment of a premier, which law-makers did on July 10, approving Lazarenko by a vote of 344 to 22, with nine abstaining.

Communist Vestiges Removed

By enshrining the separation of powers, individual liberties, and the rights to private property and entrepreneurship, the new charter eliminates the last legal vestiges of the communist power. "Until now, everything was temporary, fragmentary", said delighted minister of justice, Serhiy Holovatiy.

Ukraine's previous constitution dated from 1978 when the nation was still a Soviet socialist republic, and had been amended 20 times since the country gained independence in 1991. A draft of the new constitution was first introduced in 1992 but foundered on the controversial issues of executive powers, language, and property rights that were finally adopted four years later The sense of legal impermanence in the interim had been a significant barrier to reform, sometimes in unexpected ways. Previously, for example, communist challenges to Ukraine's post-Soviet flag, approved by a majority vote in 1992, seemed timed to distract attention from economic reform legislation on the agenda.

But when the communists and their allies delayed review of the draft constitution in June by walking out on debates over language, Kuchma on June 26 called a referendum to circumvent the legislature and seek popular approval of the national charter. "This would have taken much longer without that pressure", said Vyacheslav Chornovil, leader of the rightist Rukh party which had backed the call for a referendum.

Besides enshrining the blue-and-gold flag and the trident as the state symbol, the new national charter proclaims Ukrainian to be the sole state language in the country of 52 million.

More directly related to economic reforms are the new provisions on property rights which were not even mentioned in the

previous constitution. Under the new one all forms of ownership are equal before the law (Article 13). The rights to ownership of land are guaranteed in Article 14.

Article 41 stipulates, "the right to private property as acquired in the manner set by law /land/ is inviolable. The forcible taking of objects of private property may/occur/ only as an exception motivated by social necessity, in accordance with procedures set by law, and on condition of the previous compensation of their value. The forcible taking of objects of private property with the subsequent compensation of their value is permitted only in cases of war or state of emergency."

The constitution enumerates the rights of individuals to equal protection, free speech, movement, assembly, and conscience, and eliminates the singular political role 'worker collectives' had under the 1978 constitution. Soviet era rights to work, social security, housing, education, and leisure have been diluted.

A new 'right to entrepreneurship' has been added, and the constitution provides that the state is "obligated to protect competition", and that "abuses of monopoly status in the market, unfair restrictions on competition and unfair competition are banned".

Separation of Powers

State power is divided among the legislative, executive and judicial branches.

The highest legislative organ is the 450-member parliament, the Verhovna Rada (supreme council) elected for a four-year term. Its authority includes passing the budget and overseeing its execution; adopting laws confirming the president's nominee for prime minister; and controlling the activities of the cabinet of ministers, including the option to vote no confidence. The legislature also approves foreign loans and confirms the president's nominees to head the national bank, the state property fund, the general prosecutor, and state television and radio It may override presidential vetoes of legislation by a two-thirds vote.

The president may dissolve the legislature if it fails to convene a plenary session for 30 consecutive days.

The powers of the president who served as both the head of state and the country's chief executive under amendments to the previous constitution and last year's constitutional contract, have been trimmed. Under the new constitution, the president, elected for a five-year term is the head of the state while most executive duties belong to the cabinet of ministers. But there is a significant overlap between the two institutions. The president nominates the prime minister who must be confirmed by the parliament. But the president may dismiss the premier unilaterally, and also may rescind acts of the cabinet. On the premier's recommendation the president also appoints the rest of the cabinet.

While the cabinet's powers extend mostly to socio-economic issues, the president is the commander-in-chief of the armed forces and heads the council of national security, a body for co-ordinating and controlling executive institutions involved in defence and security. The council also includes the prime minister, the head of the security service, and the ministers of defence, foreign affairs, and internal affairs. When issued as presidential decrees, the council's decisions have the force of law.

In case of treason or other crimes, a majority of the parliament may initiate impeachment proceedings. Two-thirds of the parliament must vote to indict, and three-quarters are needed to dismiss the president. If the president is dismissed, resigns or is incapacitated, most duties of the office fall to the prime minister.

The highest executive authority is the cabinet of ministers which includes, at a minimum, the prime minister, the first vice-prime minister, and three vice-prime ministers. The head of the cabinet is the prime minister whose resignation – whether voluntary or forced by a no-confidence vote by parliament or dismissal by the president – requires the resignation of the entire cabinet. This was not the case earlier when premiers resigned but the governments they headed often remained largely intact.

The president and the prime minister both may issue executive orders with the force of law. But in areas of foreign affairs, ministerial appointments, the military, national security, and decisions to dissolve the parliament, presidential decrees must be approved by the prime minister.

Nearly all economic issues – including the budget, taxes, market regulation, and government securities – are to be governed exclusively by laws, and are, therefore, the purview of the legislature. But during a transition period of three years the president may issue economic decrees confirmed by the prime minister on issues not already regulated by legislation.

In such an event the president must simultaneously introduce legislation on the subject of the decree in parliament. If the legislature fails to adopt the legislation, or if a majority fails to vote against it, the decree becomes law until parliament adopts legislation on the same subject.

Although president Kuchma had lobbied to make criminal prosecution a purely executive function, the constitution provides that the general prosecutor is nominated by the president and confirmed by the parliament. A Rada vote of no-confidence requires the prosecutor's resignation.

Judicial authority is given exclusively to the courts which are divided into two kinds: the constitutional court and courts of general jurisdiction. The former is the sole organ empowered to determine the constitutionality of laws and legal acts of the president and the prime minister, and to issue official explanations of the constitution. Courts of general jurisdiction are divided territorially and by speciality according to legislation.

The European Union
A Model for Regional Co-operation in South Asia?

Jakob Rosel

The gradual evolution of the European Union has coalesced into a myth where steadfastness, singularity of purpose and humility triumph against adversity. Against this teleological model, this article argues that contingent historical circumstances played important part in shaping the history of the EU. Though there are lessons to be learned from European integration, it will be naive to consider it as a model for south Asia, given the economic and demographic discrepancies within the latter.

CAN the European Union (EU) serve as a model for regional co-operation in south Asia?

This is one of those broad questions to which many answers are possible. This is because these answers will necessarily reflect what we view as the main achievements of the European Community, how we define a model and what we regard as possible in the field of regional co-operation in south Asia. Therefore I will not confront this question squarely. Instead I will approach it on a more devious route.

I will first demonstrate how the FU has evolved its own myth of creation, and how this myth is based on the belief that the European achievement can be replicated everywhere. In contradiction to this myth of creation I will show that the EU evolved in an unpredictable manner and that it is by far more unique and specifically European, than this didactic and simple myth of origin concedes.

While I dispute in Section I the exemplary character of the EU, in the second section I hope to demonstrate that although the EU can never serve as a simple model and blueprint to be transposed and imitated at will, we can at least derive some important lessons on the chances and constraints of supra-national co-operation from the European experience. Thus, while I reject the community as an empirical model, I will derive from its evolution some general insights into the capability of sovereign states to construct supra-national institutions and alliances. It is only in the third part and on the basis of these doubts and hopes that I will address the aforementioned answer directly.

I
Legends of the European Union

Parallel to its success and proportionate to its capability to fund research and to evolve its own mythology the EU has transformed its history into a success story, a historical drama and a lesson. In this legend of European integration we thus find structural analogies to other canonised versions of historical adventures fulfilling the destiny of a nation or embodying the 'mission civilisatrice' of a state. In the European case we find at the beginning the contrast between a European history based on mutual antagonism and warfare and a European culture which gave rise to that threefold technical, economic and political transformation which gave rise to modernity. It is this stark dichotomy between Europe's continuing capability for self-destruction on the one side and Europe's ability to learn, to create and to transform, which serves as a background for the adventure of European integration. Here is an entire sub-continent – so we are told – which after second world war was capable to draw upon the best of Europe's creative traditions to exorcise and contain what was worst in its historical legacy.

Farsighted statesmen then entered the stage, first Jean Monnet and Robert Schuman, then Adenauer and de Gaulle which had been witnesses to Europe's destructive instincts and which were now willing and capable to redirect and contain these malign forces – of nationalism, militarism, protectionism and economic rivalry. These men – we hear – are no narrow ideologues, naive visionaries or irresponsible idealists. Instead, these seasoned and responsible statesmen combine idealism with pragmatism. They base the ideal of European integration on the solid foundations of various economic complementarities between the European states, especially France and Germany. By redirecting and transforming their nations' economic interests they attempt to realise a political ideal: a pacified, democratic and prosperous Europe. A predominance of economic means over political ends, a step by step approach and a strategy of incrementalism thus lie in the centre of European integration. The same elements serve to characterise the official portraits of these statesmen which have been designed by the new hagiography emanating from Brussels. If we study the lives of these prophets and apostles of European integration we therefore enter into a new pantheon shared by elder statesmen which were humble enough to accept compromise and to concentrate on economic detail but who never betrayed their common ideal. The drama which then unfolds from the 1950s onward also has a villain – the British – and its protagonists have to contend with two unprecedented political challenges: the menacing power of the Soviet Union and the dominating influence of the US [Nugent 1994:33-57].

Thus, before the ominous background of European history and against these new challenges the adventure of European integration begins. We all know the basic story. European integration starts in 1951 with the European Coal and Steel Community (ECSC), a customs union which is based on supra-national institutions, which are muddled by inter-governmental compromise. This high commissariat, council of ministers, court of justice and parliament served to the future economic community as precedent, they constitute the bud of the flower of European integration. The ECSC is based on the economic complementarity of French iron ore and German coal, a complementarity which Jean Monnet used to establish a customs union in which "war, would in future not only become unthinkable but materially impossible" [Swann 1992:6]. Unreflected and rash idealism then came to fall in 1954 with the failure of the project of a supra-national European Defence Community and European Political Community, until the chastened founding fathers returned to the pragmatism of building upon – still wider – economic complementarities to advance an economic integration for political ends. With the Rome Treaty of 1957 for a European Economic Community (EEC) the process of integration is finally initiated and since that time it has never stopped: as an economic success story, as an act of self-emancipation against the two superpowers and as a running theoretical debate between free traders and custom unionists [Holland 1993:22-57].

It is also with the Rome Treaty that the arch villain, the United Kingdom, enters the piece. In order to preserve its national and colonial interests the UK first tries to dissuade the six from founding the EEC and it then attempts to sidetrack the negotiations by propagating – belatedly – a European Free Trade Area (EFTA). By founding the EFTA the UK contributes in 1960 to the division of western Europe into two competing trading blocks, and by betraying its own organisation and joining the EEC in 1973, it transforms itself into an internal obstacle for further progress in integration. Yet despite the presence of this unrepentant 'saboteur'

European integration from now on – although in fits and starts – proceeds to ever higher level of economic interdependence and it succeeds on the level of a sub-continent. Profiting from its self-generated dynamism – new economies of scale, vested interests and institutional pressures – the community establishes a customs union (1967), implements a common market (1992), and now aims for a monetary union (1999). This success in climbing the ladder of ever closer economic integration leads to the emergence of an economic superpower which although speaking with many political heads increasingly transforms economic influence into political clout. Economic success thus initiates a metamorphosis which makes the political ends and ideals for which economic integration was started in the first place ever more explicit [Woods 1993:91-105].

Yet this success in vertical integration and transformation is accompanied by horizontal integration, by the continuing growth of the community of six to a community of 15. Through three stages of growth the community has demonstrated that it sticks to its principles – 1973: UK, Ireland, Denmark; that it rejects dictatorships and rewards democratisation – 1983/86: Greece, Portugal, Spain and that it (by now) offers not only indispensable economic opportunities but political guarantees – 1985: Sweden, Finland, Austria. Extension of the community thus did not obstruct; quite to the contrary, it facilitated growth. The evolution of the community resembles thus the flowering of a tree: from an unattractive kernel planted into barren ground it has by now grown into a majestic tree spanning half a sub-continent and resting on its own firm foundations [Swann 1992:21-47].

Seen under this perspective the growth of the community resembles the unfolding of a secular miracle: a drama where steadfastness, singularity of purpose and humility triumph against the forces of adversity. This historical drama confronts us with a spectacle where even the unrepentant are embraced and possibly re-educated, where the small and humble nations can withstand the seductions and threats of the superpowers and where a fallen subcontinent can come to terms with the sins of its past. There is thus certainly something to be learned from this secular success story and the drama of European integration – as set down in the aforementioned canonical version – does not neglect the practical lessons to be learned from the European experience.

By now nearly all the member states of the EFTA have joined the community. The debate, opened in 1957 by the UK on the effectiveness of a free trade zone as against the advantages of a customs union or a common market is therefore by now closed. In the eyes of the community there is no room for doubt that regional economic integration based on a customs union and aiming for a common market are by far to be preferred to the rhetoric of generalised free trade and to regional free tràde areas. In consequence, the European Community has persistently advised non-European, especially third world states to build their own regional trade organisations and especially customs unions. At the same time the community has insisted that by concentrating on economic co-operation and a pragmatic step by step process clusters of nations can lessen their political rivalries, increase their economic and political weight and thus defend or at least articulate their interests against the superpowers and major trading blocks [Buchan 1993:105-121].

Out of conviction or political expedience the community thus offers to third world countries its own past and experience as their future and possible destiny. On the level of official rhetoric and historiography the community thus believes in the possibility to replicate its own adventure and success among 'all sorts and conditions' of states. By overstating the challenges and dangers which European integration had to face and by understanding the resources, fortunate incidents and external assistance which facilitated integration, this picture of integration furthers a belief in its easy and possibly universal imitation. But is this official version of the community's growth correct? Several unwarranted assumptions determine the structure and content of this exemplary story. These assumptions are probably unavoidable when we want to enjoy the community's emergence as an intelligible, edifying and useful story. These assumptions are rhetorical devices which, not only in the European case, are used to transform history from a 'tale told by an idiot, full of sound and fury, signifying nothing" into something with a beginning, an end, a meaning and an order. It is therefore important to analyse and to qualify some of these central assumptions in the legend of European integration. Important assumptions used to structure the legend of European integration are the following:

(1) The assumption of the power of new and original ideals to influence statesmen and shape history;
(2) The assumption of a singularity of purpose which initiates and accompanies a specific historical development, and finally
(3) The assumption of a dynamic and self-sustaining process of growth.

In short, these three assumptions imply a primacy of ideals over matter, of primordial conviction over contemporaneous context and of self-propelling change over established interests. The progress of European integration is thus structured by idealistic, teleological and structural suppositions, which may contribute to a good and didactic story but which must be qualified to a great extent. In the following, I will not attempt to deconstruct the whole legend of European integration, instead (on the basis of some examples taken from the beginnings of European integration) I will try to demonstrate that European integration evolved in an unpredictable manner and was determined by constant changes, by day to day decisions and events. Only with the benefit of hindsight is it therefore possible to describe it as a continuous progress measured against a model of ever increasing macro-economic integration and on the scale of a sub-continent. Qualifying these assumptions thus leads to a more realistic understanding of the adventure of integration while it simultaneously undermines our belief that it can be easily imitated.

The belief in the power and originality of the idea of Jean Monnet and Robert Schuman to found a customs union for coal and steel products by now stands in the centre of the legend of European integration. Ever since the remains of Jean Monnet were transferred to the Pantheon in Paris and various Robert Schuman prizes, medals and anniversary ceremonies were instituted both statesmen have been transformed into the first prophets of European supra-nationalism and integration. But as new studies have shown, the idea of building a customs union for French and German steel and coal products had been propagated since the 1920s, if not before, and the idea of providing such a union with a supra-national framework again was not radically new. Instead, it was the moment at which Monnet's plan was launched, the deliberate vagueness of its content and its brilliant rhetorical form which guaranteed its success. Equally, Monnet had envisioned a supra-national commission and he was finally forced to accept an inter-governmental 'council of ministers', but the creation of a parliament for the ECSC at least at the beginning of negotiations had never entered his mind. So the basic institutional structure which characterised the ECSC and which was replicated in the European Community was the result of compromise not the consequence of a brilliant design [Trausch 1995:105-28].

Again, the power of a new idea to transcend and transform national interests can also be doubted. A whole array of different motives and considerations entered the plan of Monnet and Schuman all of which aimed not so much at European integration but on the reassertion of a dominant role by an empoverished and weakened France. The ideal of supra-nationalism and European integration was instrumentalised in the pursuit of an enhanced role and status for France on the continent. Monnet and Schuman were convinced that only with the help of a customs union the French steel industry could be forced to modernise, to expand production and to shed its protectionist habits. Not only should the customs union help to modernise French industry and to contain the re-emerging

German industry. As a custom union was completely unacceptable to the British, French politicians hoped that France, by leaning on a still weak West Germany, could reassert a dominant role on the continent. On the other side, Adenauer and the foreign office were keenly aware of the possibilities such a temporary convergence of interests would create for Germany's economic reconstruction and renewed political respectability. And it took more than 12 months to reach a compromise on the institutional framework of the ECSC and the negotiations were not exactly characterised by pan-European idealism.

Not only can the power and originality of pan-European ideas be put into doubt, equally doubtful is the teleological assumption about a singularity of purpose in engaging for European integration. Instead, an interest in furthering European integration waxed and waned with political circumstances and with new constellations of political interests and pressures. Thus, to give only two examples: the plan for a European defence community did not fail because it lacked a supra-national mechanism for political control. It failed in the main, because the French government, by now acutely aware of the insufficiency of its conventional military forces had decided to acquire in future a nuclear 'Force de Frappe', the control of which it did not want to share with a European defence organisation [Loth 1995:191-202].

Again, the definite decision for an independent economic community of the Six against the plan to combine this customs union with a free trade area comprising the UK and the remaining western European states was hastened by the final demise of the French fourth republic and chancellor Adenauer's resolve to oppose the adherents of free trade and critics of protectionism in his cabinet. The French prime minister Guy Mollet saw in the construction of a customs union the only means to develop the French industry and to secure new markets and financial resources – without British competition. Adenauer regarded the political benefits of the EEC as more important than the eventual hostility of the UK and criticism by the advocates of free trade. But even after the completion of the customs union, European integration experienced long periods of stagnation and it proceeded by fits and starts: if we study the various periods of a 'relance', we can always observe that the community evolves due to new, unforeseen and external pressures but not as a result of a preconceived plan – set out or implied in its Magna Carta, the treaty of Rome. The community does act always as a child of its times, not of its 'fathers' [Kusters 1995:203-40].

But if the community's progress is not determined by a singularity of purpose, by a common and pragmatic ideal shared by most of the European statesmen, is there at least room for the belief that the community could continuously prosper and progress on the basis of its own success? This belief in the community's growing institutional weight, its self-generated growth and finally its irreversible tendency to expand seems by far the best theoretical device to explain as well as to structure the community's progress. Still there is room for doubt: conventional wisdom perceives in the centre of the community's institutions a bipolar relationship between the (supra-national) commission and the (inter-governmental) council of ministers. This is supposedly a relationship between a bureaucracy which has knowledge without power and an executive which exerts power without knowledge. To the degree that an evermore competent and informed commission threatened to influence and dominate the council of ministers, this executive was forced to embark on an institutional evolution of its own. To compensate for its lack of knowledge it had to build up its own bureaucracy, to withstand commission pressure it had to reorganise its proceedings with the new institutional device of the European presidency and the European council and in order to react to the growing pressures on decision-making it had to shift from unanimity to qualified majority voting. Growing competition between the commission and the council of ministers thus gave rise to a mutually reinforcing process of institutionalisation and bureaucratisation, which not only increased the authority and power of commission and council, but which integrated them in an ever closer net of competing as well as converging interests [Hancock and Peters 1993:474-83].

It is this closely intertwined institutional structure, which with the help of an increasingly authoritative court of justice and an increasingly influential parliament has generated those bureaucratic and political ambitions and has sustained those vested interests, which advanced further economic and political integration. But again this assumption which perceives *post factum* an – institutional – dynamic at work in European progress needs to be qualified. The European Community witnessed in the 1970s long years of stagnation and indifference and the acceleration in integration whhich we observe since 1986 was in the main initiated or enforced by impressive individuals – Jacques Delors – the accession of new members – Portugal, Spain – and by unpredictable political events – German reunification and the breakdown of the Soviet Union. Thus, it is not so much the interest of institutions and by now an institutionalised dynamic which enforces progress in integration, but context and circumstance [Buchan 1993:27-41].

Thus, in contradiction to the legend of European integration we might conclude that it was neither the power of an idea nor the persistence of an 'esprit europeen' and not the dynamic of ongoing success which initiated and sustained European integration. Instead – so we are tempted to argue – the community evolved in an improvised and largely unexpected manner and it was shaped by the general context of European politics and by specific events. And apart from that, till 1986 it evolved in a general fit of absent-mindedness.

But if the community is seen not as a result of an idea, a conviction and a self-sustaining dynamic but as the unpredictable and yet specific result of European political culture and development, it is hard to see how this unique consequence of European post-war evolution can serve as a model to regions and states with a completely different historical background. If the European Community cannot serve as a general model for regional co-operation, are there at least some lessons to be learnt from the European experience?

II
Lessons from European Integration

Supra-national political organisations in the ideal form of a federation of states derive their cohesion and autonomy in the last instance from those rights of sovereignty which their constituent states are willing to transfer to them. As the experience of so many intra-regional pacts, alliances or organisations demonstrates, weak as well as strong, insecure as well as self-confident states seldom concede national sovereignty in forms and degrees which will initiate irreversible and self-regulating processes of integration. There exists seemingly only one traumatic experience and self-generated constraint which can force states to transfer vast sovereign powers to a supra-national level. This is the experience of repeated and disastrous wars, wars which have finally led to a situation where the very survival of states, their basic identities, values and interests is at stake. Such a situation is outlined by Hobbes in an intra-state context and it was experienced in Europe after the second world war in an inter-state context. As outlined by Hobbes – for the case of religious civil wars – it is only under the threat of a possible continuation or recurrence of a war of mutual annihilation that the parties to this conflict will subject themselves to an external peace keeping power or that they might be willing to transfer rights and resources to a new and higher authority. Yet, in the European case, the insight into Europe's continuing capacity of self-destruction and the experience of having been transformed from a centre of global power into a battleground of two new and antagonistic global powers at least at the beginning, led only to a limited response on the part of some of the western and democratic European states. Prodded by the US and enlightened by a desperate self-interest, after years of experimentation, the founding members of the European economic community were

willing to concede strictly circumscribed economic powers to a supra-national European organisation to make "war not only unthinkable, but materially impossible". Economic means were thus employed for unstated political ends: the democratic stability and the political reassertion of western Europe. As this example demonstrates, even under the best – or the most pressing – of circumstances independent states will not easily relinquish sovereign rights to ensure their political survival or reconstruction, consolidation or development. For other independent as well as antagonistic states, the European experience thus leads to an obvious conclusion. Short of a major catastrophe these states might not enter into an initially limited but in the long term irreversible process of far-reaching economic and possibly political integration. Yet, as the European experience also demonstrates, such as process if initiated can create its own logic and incentives [Soulier 1994:370-83].

At the beginning, supra-national bodies like the European economic community are motivated by and initiated through the interests at self-preservation of states. Now, to the degree that the loss of state sovereignty is recompensated through gains in the stability, wealth and authority of the respective states there might emerge a broad political consensus to exchange additional rights or degrees of sovereignty against such prospective political gains.

The concessions of national sovereignty are now no longer seen in a zero-sum game perspective, they are seen as investments into a mutually profitable process. This new incentive to engage in supra-national integration can be better understood if we distinguish between the independence, the sovereignty and the strength of a state: Independence could be defined as the capability of a state to pursue, without interference, to the fullest possible extent its interests in the widest possible range of sectors. Sovereignty, in contrast, could be described as the political ambition and the legal entitlement of a state to engage in this pursuit of its interests. Strength finally would mean that quantum of power which is available for this pursuit of interests, practice of independence and realisation of sovereignty.

On the basis of this description it is easy to see that a restriction of national sovereignty through interstate integration – in diverse areas as technical, economic, military or political integration – can lead to an increase in – technical, economic, military or political – strength, which again contributes to greater independence in various other sectors. Thus, through the concessions of specific and clearly circumscribed rights of sovereignty to supra-national institutions a process can be initiated which by increasing the strength of a state, diversifies as well as enhances its independence. Not only this, the same process of a concession of rights will in the long run contribute to the redefinition, development and differentiation of the concept and content of sovereignty [Franck 1990:9-10].

Yet, for such a process to succeed there must exist – apart from political circumstance and consent – a legal tradition, expertise and competence, which will sustain and safeguard this process. There is certainly reason to assume, that the process of European integration was increasingly driven by the experience of the constituent states, that, what they lost in terms of specific and circumscribed sovereign rights, they regained in terms of technical, economic, military or political strength and *de facto* independence. Thus, the European experience leads to an ambiguous conclusion: European integration – leading to the possible political reassertion of Europe as an actor in international relations – has been determined by the persevering, although enlightened, interests of single states. The success of European integration on the one side therefore rests on the strengthening of supra-national institutions, on the other side it has resulted in the strengthening of its constituent states. Far from marginalising and eroding the single state – 'weakened by tribalism and globalism' [Huntington 1993:22] – the European Community has been initiated by and it has simultaneously largely profited single states [Hancock and Peters 1993:508-22].

As already outlined, the emergence of autonomous and powerful supra-national political organisations rests on the willingness of sovereign states to transfer substantial rights to such an organisation. As states – at least to the present days – were always reluctant to concede such rights, such organisations – including the European Community – must of necessity enact laws, regulations and norms, for which they lack the ultimate power of sanctions. New supra-national institutions remain dependent on the willingness of states to conform to new modes and expectations of behaviour, which these institutions are allowed to prescribe, but in the last instance cannot enforce. But this intrinsic difficulty and structural instability of supra-national institutions must not necessarily accompany and finally obstruct ever closer integration. Instead, the growing success of integration can create new constraints and incentives which even in the absence of powers of sanction, will enforce conformity.

It is obvious that in every voluntary association – be it of individuals or states – the degree of mutual obligations and of self-imposed norms, enforced and indirectly defined by sanctions cannot be higher than the degree of disadvantages, which results from the – voluntary or involuntary – withdrawal from this group. Growing disadvantages thus increase the scope for sanctions and for the imposition of new and more restrictive norms. The same relationship can also be described in positive terms: to the degree that members of this association derive increasing advantages from group membership, they will accept ever more stringent rules and they have to conform to ever more restrictive norms. The success of inter-state integration, the creation of new advantages and benefits, thus operates as the driving force which facilitates the enactment of new rules, secures conformity and contributes to increased cohesion. Now from this rather abstract set of conditions and determinants some additional benefits and strategies will follow.

If the aforementioned association will expand, if it wants to admit new members, it can impose on every new member that level of rules and norms, that degree of conformity, which it has by now attained. The association of states therefore can, possibly from the start, embark on the dual course of increased 'vertical' integration – the setting up of new norms and regulations – as well as 'horizontal' expansion. This horizontal expansion, the admittance of new members will in its turn transform the cost-benefit calculations of outsiders and potential insiders. This is, because successful expansion, the admittance of new members, will in the long run narrow their options: very soon, outsiders might be placed in a position, where they can no longer enter into the respective group on their own terms, where there are no outsiders left with whom to form an alternative association and where to remain independent will mean to face increasing isolation and disadvantages. Yet, these structural and normative effects of an increasingly successful integration, will not only accelerate expansion and deepen cohesion and conformity, the same effects will also offset to a certain degree the always present and potentially rising costs resulting from non-conformity or from the so-called 'free riders'.

As long as the benefits resulting from increased (vertical) integration and (horizontal) expansion are perceived as to outweigh the costs accruing to the association from the presence of 'free riders' – through calculated non-conformity or through unavoidable imbalances in contributions and benefits – such integration and expansion can continue. Increasing diversity in composition; in conformity of behaviour or in capability to contribute, will thus accompany but it will not necessarily undermine the development of the respective association. Yet, to the degree that increasing integration, expansion and benefits result in new chances and needs for the enactment of more and detailed regulations and norms, this legislative challenge must of necessity enforce a process of further institutionalisation.

Now – as the European community institutions show – this process can take many directions and it can assume diverse forms, yet, what is important is the fact that

institutionalisation tends to make a certain level of integration irreversible. Institutionalisation establishes bureaucratic specialists, which have a vested interest in further integration, which have the expertise to fully exploit the need for and the chance of further regulation and legislation. In addition, institutionalisation will lead to the establishment of courts, which although they lack the power of sanction, are by now well endowed with an authority to sentence. Successful integration, thus, can result in institutions which although devoid of power begin to control their own resources, accumulate knowledge and exert authority. In consequence, these supra-national institutions can to an ever greater degree influence the political perceptions of the various state governments, they might manipulate their choices and they will operate as third parties. Successful supra-national integration has by now – so we might conclude – generated its own dynamic, its own incentives, institutions, personnel and rationale. In other words, supra-national integration is not only successful, it is by now probably irreversible and it can impress itself on the public mind as a success: it thus can no longer be ignored. Yet, to the degree that supra-national integration is by now perceived as permanent, it is this perception which in its turn tends to consolidate as well as to advance integration [Nugent 1994:85-121].

To the degree that supra-national economic or political integration is perceived as a new yet enduring social order, ever larger sections of the society by now have to take account of this new economic or political framework Political strategies, economic expectations or personal decisions will be based on the assumption of the continuing existence of this order. By ascribing permanence to this order these individuals, sections or societies will contribute to its stability. It now rests on the interests of the few or the inertia of the many, it has been incorporated into the realm of personal planning and public anticipation. Yet, due to the same process supra-national integration will not only operate as an element of planning but also as a field for investment. The same individuals, sections and societies will invest in social, economic or political terms into this new framework, which they by now regard as permanent. This investment into the stability and future of the new order will further increase its solidity and strength. Successful, increasingly institutionalised, and by now highly visible supra-national integration thrives on public awareness and it benefits from the collective assumption that it will last and that to invest in this order is both necessary and profitable. This new order is not yet seen as legitimate, only as inevitable. But in all probability people who begin to ascribe permanence and utility to this order, will in future ascribe authority and legitimacy to this new structure [Popitz 1992:221-27].

I will not further prolong these rather simplistic remarks on the difficulties and chances on the way to supra-national integration. For the case of European economic integration many cases might be cited, when rather unexpectedly these difficulties could be overcome and these chances exploited. Yet, although the until now unique European experiment has led to an undeniable success in economic integration, it is still far from giving the European Community a common political voice. Thus, even under the best of circumstances the difficulties preventing supra-national political integration still outnumber the chances for such integration.

III
Can South Asia Learn from the European Integration?

I have tried to demonstrate that in contrast to the didactic legend of European integration it is difficult to see how the EU can serve as a clear-cut model for south Asian regional co-operation. On the other side we have seen that the European experience at least demonstrates that fully sovereign states are perfectly able to construct supra-national institutions and that they might gain new political strength and economic power through a calculated loss or delegation of sovereignty. Yet, at the same time our description has shown that enlightened self-interest at least in the European case was not enough to initiate this calculated process. At least in the European case, the experience of a devastating war, the menace of an expanding superpower and the discrete prodding by an allied superpower were necessary to push the European states in the direction of their supposedly obvious interests.

Integration was further facilitated by a unique historical moment and political and military balance. A conquered and humiliated Germany had to accept this plan of future integration while a victorious but weak France was willing and able to offer it. Extraordinary circumstances and a rare and already shifting balance of power coupled with a complementarity of economic interests thus facilitated the experiment of European co-operation and integration. It is hard to find any analogies to this set of fortunate circumstances and factors in the south Asian arena. Most importantly, we find a completely different balance of economic and political power.

The 'Big Four' – France, (West) Germany, Italy and the UK – which have largely influenced the community, had roughly the same demographic and territorial weight, and what differentiated them in economic power, they would compensate in military strength, historical status or cultural pretensions. At the centre of an expanding community we thus find several and mutually balanced states. This is not the case in south Asia. Using the European Community as a frame of reference a south Asian (economic) community would resemble a European Community in which Germany – India – would constitute the sole and central big power, surrounded not by several major, but only a restricted number of smaller states. Pakistan would play the role of Belgium – one-eighth of Germany's population – Bangladesh the role of backward Greece, Sri Lanka and Nepal would operate as Denmark and possibly Austria, and the Maldives Islands might act the role of Luxembourg. It is easy to see that these smaller European states would in the absence of major powers never have contracted a marriage of convenience even with a weakened and conquered Germany. Thus, south Asia – so we might conclude – can certainly derive some insights from the European experience in supra-nationalism, but it is hardly conceivable – given the huge discrepancies in demographic and economic weight – that south Asia can construct a customs union or a common market.

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Textiles and Industrialisation

Tirthankar Roy

New Silk Roads: East Asia and World Textile Markets edited by Kym Anderson; Cambridge University Press, Cambridge; pp xxvi+245.

FEW sectors illustrate the industrialisation process in all its stages as well as the textile industry. Distinct literatures on long-run economic change – development theory, comparative advantage, 'stages of growth' tradition in economic history – intersect in their use of the common example of textiles. This is due not only to the importance of cloth as a consumption good irrespective of levels of income, but also to the fact that historical and contemporary evidence allows certain broad but remarkably stable cross-country generalisations about the role of textiles in industrial development. The following six perhaps constitute the core set of these 'stylised facts'.

(1) Dispersed comparative advantage: Fibres, yarn, fabrics and clothing are among the most widely dispersed and extensively traded commodities in the world, which suggests that nearly every country, rich or poor, has comparative advantage in some textile-related activity. (2) Leading exportable: Textiles have been the 'leading sector' and leading export in the early stages of development, almost without exception if we look at relatively resource-poor and labour-abundant economies. The principle validated is that such economies have a comparative advantage in labour-intensive manufactures. The importance of trade in early development is buttressed by the fact that in a large number of cases, the rate of export growth exceeded that of GDP growth during industrialisation. In theory, growth does not have to be export led. A country like India with a large home market can provide a different option. But in practice the inelastic need in a poor country to import food, input or technology leaves little choice. (3) Inverted-U: The share of textiles in exports and incomes follows an inverted-U shape when plotted against time or GDP per capita. The pattern, however, emerges only with industrial maturity Country-share in world exports and 'export-specialisation' indices follow a similar inverted-U pattern but, for any single country, all these indices do not necessarily coincide. (4) Overlapping inverted-Us: The inverted-Us overlap when we look at early- and late-industrialisers together. Comparative advantage in textiles passes on as relative resource-costs and learning profiles change. Countries once net exporters turn into net importers. Britain and major textile producers of western Europe faced their turning point in the 1930s. Japan did in the 1960s. The east Asian NIEs in the mid-1970s. We are now at points fairly high up in the inverted-Us of China, Thailand, south Asia and several other smaller developing-country exporters. (5) Lingering comparative advantage: In the downward phase in mature economies, comparative advantage rarely disappears. Rather, it moves out of certain sectors to certain others within textiles which are more capital- and knowledge-intensive. Typically, advantage lingers on in fabrics more than yarn and clothing, manmades more than natural fibres, industrial fabrics more than apparels and in high-speed or high-precision machinery. Even within clothing, comparative advantage lingers, in Italy and France for example, in garments which utilise flexible specialisation, organisational resources which matter to innovation and marketing and are relatively capital-intensive. The downward journey of the inverted-U, in other words, involves not just decline, but diversification, rationalisation, organisational change, greater R and D and, typically, substantial state intervention to direct or stabilise the restructuring. And, finally, (6) increasing intra-industry trade: It follows from (4) and (5) that all countries, whether net importers or net exporters, tend to trade within textiles more heavily over time.

East Asia displays all of these processes in the hundred years that span Japan's rise in the last quarter of the 19th century and China's in the last quarter of the 20th. In between, Japan, and partially Hong Kong, Korea and Taiwan, completed the inverted-U. The 1980s, and largely the 1990s as well, however, represent a very different time from that when the 'take-off' began in the NIEs. For one, protection in the main markets has increased and another, the sheer scale of China's presence raises a variety of questions, especially those about market access of other suppliers. The latter includes some of the world's poorest countries, such as those in south Asia.

The book under review has three basic objectives, to illustrate the processes which relate textiles with trade and development, to examine the effects of trade regimes on east Asian textile producers and to assess what China's rise means for global trade and production. South Asia is of marginal interest in the essays compiled here, but clearly the general issues are of great relevance for India. The book contains nine articles presented in a seminar jointly held by two Australian universities in 1989. The conclusion of the Uruguay round has added new questions to those addressed in this volume, but that does not detract from its usefulness as a reference. On the contrary, there is great deal here relevant to speculations about the future.

The essays are divided into two groups. The first, consisting of contributions by Kym Anderson, Young-Il Park and Suphat Suphachalasai, sets out certain general propositions about comparative advantage relevant for textiles and, in that light, draws lessons from the experience of pre- and post-war Japan, post-reform China, Thailand in the 1980s, and historical evidence in general. The general lessons are already embodied in the six stylised facts above. These lessons are not matters of serious disputation. But it does seem at points that the discussion here somewhat overstresses the abstract comparative advantage mechanism and under-emphasises differences of an institutional nature, in organisation or learning, of the sort invoked in the textile history of India and Japan to explain the former's retreat and the latter's rise in the Asian yarn market at the turn of the century. Of particular interest are certain specific issues discussed such as prospects of sustaining China's self-sufficiency in fibres which has been one force behind its export performance, and the set of factors which led to the dramatic rise of Thailand from the mid-1980s.

The second set of essays deal mainly with the markets for east Asian textiles. The topics are China's prospects in the presence of MFA (John Whalley), adjustments in Japan (Hideki Yamawaki), demand and trade policy in Europe (Carl Hamilton), the US (Joseph Pelzman) and Australia and New Zealand (Peter Lloyd). The essays supply a useful descriptive history of the regime, discuss the substantial research which estimated the levels and costs of protection, differences between importing countries in the operation of the regime and between exporters in their response. One common theme is that MFA has been a 'porous barrier' in restricting scale of imports from any specific source, though it indeed has affected production strategies and location (by encouraging FDI for example). The implication is that the phased withdrawal of MFA might affect these strategies more than the scale of trade. The essays do speculate what the medium-term future might look like. The forecasts

cannot be very specific, but point out several factors that can shape the future. One point of interest is that, with or without global trade rules. Europe is likely to maintain a 'pyramid of privileges' with respect to its main transactors, in which hierarchy much of Asia belongs in the lower tiers. Another is that China's surge may be constrained by the increasing pull of the home market and by fibre availability. Both conjectures have an echo in, and seem to be validated by post-1985 Indian trends – which reminds one of the many points on which India and China are comparable: scale and diversity, home generation of fibres, etc.

For a south Asian readership, the absence of such comparisons might seem like a potentially instructive area left undeveloped. That apart, one wished for greater concern in the essays with textile machinery, inclusion of which would make the general propositions relating textiles with industrialisation richer and more nuanced. These are, however, minor qualifications. The book is an essential reference and a source of much useful information on the recent past for an Indian researcher interested in a comparative perspective on the industry.

The Second Transition: Family Welfare to Reproductive Health

S Irudaya Rajan

Population Policy and Reproductive Health edited by K Srinivasan, 1996; Hindustan Publishing Corporation, New Delhi; pp 361, Rs 450.

THE book under review is a collection of papers presented at the seminar on 'Policy Direction and Strategy for Action in Population and Reproductive Health in India' held at New Delhi, December 19-20, 1995. This seminar was organised as part of the Silver Jubilee celebrations of the Population Foundation of India (earlier known as Family Planning Foundation), which was established in 1971 by a group of industrialists including late Bharat Ratna, J R D Tata.

Bharat Ram, chairman of the Foundation, writes "If we could have succeeded in limiting the population to 700 million level in place of the existing 938 million, the per capita food availability would have risen by 87 per cent, malnutrition would have been largely warded off. The 36 million applicants figuring in live registers of unemployment would have nearly disappeared." India, as a signatory to the recommendations of the International Conference on Population and Development at Cairo and also the International Conference on Social Summit at Copenhagen, and International Women's Conference at Beijing, has to make necessary changes in the family welfare programme. As a first step, the government of India has lifted all targets on family planning methods and is taking measures to improve the quality of services, says K Srinivasan, executive director of the Foundation and the editor of this book.

The volume has three sections: (a) Demographic scenario; (b) policies and programmes and (c) political leadership, international comments and recommendations.

Overviewing India's demographic transition since 1970, K Srinivasan presents different dimensions of fertility and mortality regimes existing among different states. Major states such as Assam, Gujarat, Haryana, Kerala, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu, West Bengal, have shown fertility decline much faster than mortality decline. The decline in fertility did not match with the mortality in the following states: Andhra Pradesh, Bihar, Karnataka, Punjab, Rajasthan and Uttar Pradesh. There has been a substantial decline in fertility during the period from 1972 to 1992; crude birth rate declined by 28.3 per cent (from 40.7 in 1972 to 29.2 in 1992), total fertility rate by 36.8 per cent (from 5.7 to 3.6). Moreover, 67 per cent of reduction in fertility is attributable to marital fertility indirectly supporting the success of family planning programme. Marital fertility changes have contributed to more than 90 per cent in the states of Gujarat, Haryana and Kerala.

K B Pathak assesses the fertility transition using the latest National Family Health Survey (1992-93) and the report prepared for the Rockefeller Foundation, New York, by F Ram et al, 1995. While the fertility transition in Kerala was initiated in early 1960s, the female literacy was as high as 45 per cent, IMR was as low as about 90 per 1,000 live births and the age at marriage of females was 19 years. Interestingly, states like Rajasthan, Uttar Pradesh, Bihar and Madhya Pradesh have not yet achieved such level of social development but fertility transition not only has begun but it is much lower than what Kerala had at the time of onset of fertility transition. In rural India, the proportion of higher order births (four and above) declined from 47 per cent in 1972 to about 25 per cent in 1991. As high as 50 per cent reduction in higher order births is a big achievement of the family planning programme. The age at last birth among rural women has declined by seven years and thay may account for the decline in TFR of more than two children per woman.

The best and the most comprehensive paper in this volume is by P N Mari Bhat. Mari Bhat has not only provided us with indirect estimates of fertility for all districts of India but has also assessed the quality of data provided by the Sample Registration System and the National Family Health Survey. This paper is an extension of a paper [Bhat, 1994]. In its assessment of fertility trends during the 1970s, the panel on India [Bhat, Preston and Dyson 1984] had come to the conclusion that the SRS was underestimating both the level of fertility and the pace of decline. The panel also suggested that TFR levels had come down from 5.6 in 1971 to 4.7 births per woman in 1978, or nearly one birth decline per woman in about seven years. Thus, the SRS had significantly underestimated the intercensal growth in population as it was undercounting more births than deaths.

The evidence suggests that total fertility has declined from a level of 5.6 births per woman around 1971 to 4.7 at around 1978. After stagnating for quite some time at this level, it has fallen to 3 7 around 1991. Another important source, the NFHS, indicates a much rapid decline in the 1980s than either the census or the SRS, but its evidence probably flawed from backward displacement of births of older women in the survey [Bhat 1996]. Thus Mari Bhat argues the NFHS evidence on the recent Indian fertility trends has to be rejected.

The article also provides the estimated birth rate and total fertility rate for 326 districts in 14 major states in 1981 and 362 districts in the same states in 1991 along with 17 smaller states and union territories. The level of fertility has varied from a high of seven births per woman in a tribal district of Madhya Pradesh to a low of about 1.6 children in a cluster of districts in southern Kerala and north-western Tamil Nadu. A total of 15 districts in India (including the two in Goa) had reached below replacement level of fertility by 1987 but 23 districts still had TFR levels of six or more. Between 1977 and 1987, two-thirds of the districts had moved to a lower TFR class interval or experienced roughly a decline of one birth or more in total fertility. The pace of fertility decline was slowest in districts with TFR levels between five and six in 1977 among whom less than half moved to a class interval of under five births per woman. For the first time in India, all panchayat level information is available to the data users statewise within a short period of time through computers. This micro data can be used for the effective panchayat level planning. We hope the

panchayat raj institutions will exploit the information and bring glory to the panchayats [Irudaya Rajan 1996].

Near replacement level of fertility in the state of Tamil Nadu with a population size as large as Thailand, has been a matter of considerable debate because in levels of females literacy and child survival the state is nowhere near that of neighbouring Kerala nor is it economically as prosperous as Punjab or Haryana in the north. However, Mari Bhat argues that the state's position is extremely favourable on two accounts – mass media exposure and joint family – which are found to be crucial in explaining the spatial variation of fertility in India. There are three broad explanations offered in the literature for the fertility decline in Tamil Nadu, namely, poverty, programme effort and backward class movements in the state [Kulkarni et al 1995; Anthony 1992; Srinivasan 1995; Kishor 1995] We think, along with backward class movements [Eugene Irschik 1969; Pandian et al 1991], the exposure to mass media and the preponderance of joint family system are responsible for the low fertility in Tamil Nadu. Befittingly, the district from where Periyar (the most virulent campaign against brahmins and leader of the Self-Respect Movement) hailed from, and now goes by his name, has the lowest level of TFR in Tamil Nadu (1.6).

M S Swaminathan and colleagues of the M S Swaminathan Research Foundation, Madras, argue for a greater degree of de-centralisation for implementing the family planning programme. Draft national population policy prepared by the expert group on population policy on the advise of the ministry of health and family welfare, suggested in the planning process by adopting the principle "think, plan and act locally and support nationally". Mahatma Gandhi often reminded us that rural India will stagnate economically as long as the drain of brains and resources from the village to the town and cities continues. In a recent paper, Gulati and Bhide have calculated that 1 per cent switch in terms of trade in favour of agriculture would lead to an income transfer Rs 8,500 crore at current prices (NCAER working paper, 1993). Considering that the present level is adverse to the extent of over 10 per cent compared to 1971-72, the new agricultural policy of the government of India which assures parity between industry and agriculture, it implemented will result in the transfer of Rs 85,000 crore (at current prices) annually to rural areas. This single step alone will enable panchayats to undertake additional resource mobilisation within the villages to implement everything including fertility policy.

T V Antony provides us an illustrative account on reproductive achievements between Kerala and Uttar Pradesh using the NFHS. On the one extreme is Kerala, with a singulate mean age at marriage of 22.1, IMR (5-year average) of 23.8, female literacy level of 82.4, antenatal care level of 97.3, reproductive span (difference between median age at first and last birth) of 8.1 years, an average birth spacing of 34.9 months, and consequently a CBR of 20.3 and TFR of 2.09 [Zachariah and Irudaya Rajan 1996]. On the other extreme is Uttar Pradesh with a singulate age at marriage of 18.3, female literacy level of 31.5, antenatal care level of 44.7, IMR of 99.9, an average reproductive span of 14.2, an average birth spacing of 32.1 months and consequently a CBR of 37.9 and a TFR of 5.19. For quite sometime, it was the fashion to talk about the success of Kerala. Now the focus is on Tamil Nadu. Next demographers in India will be dealing with Andhra Pradesh. Andhra Pradesh with its low age at marriage, high infant mortality rate and low female literacy, yet for some strange reasons, with a CBR declining sharply from 30.3 in 1987 to 24.1 in 1993. A fall of six points in six years! There is need to develop a south Indian demographic model.

This volume also contains some articles which are repetitive and contains no new ideas or information. However, the volume contains valuable papers which are of interest not only to population policy planners but also to state and panchayat level planners. As it contains the current levels of fertility of all the districts in India, it should be a reference volume and kept in the district collector's office for an effective implementation of fertility policy.

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Indices of Industrial Productivity Growth

Disaggregation and Interpretation

J Mohan Rao

This paper studies productivity trends in Indian industry on the basis of a particular scheme of disaggregation. The disaggregated productivity measures are then suitably aggregated to provide a revised index of productivity for Indian manufacturing.

The author's scheme of disaggregation divides organised manufacturing into sub-sectors by the criteria of ownership (public versus private) and enterprise size (small versus large). This disaggregation is intended to eliminate some major potential sources of aggregation bias and to shed light on the public/private and small/large dichotomies that have featured among the main lines of the Indian debate concerning industrial performance and policy.

Finally, the paper also aims to reconsider the conventional interpretation of total productivity measures in terms of supply-side factors alone.

I
Introduction

IN a previous paper [Rao 1996], we developed a procedure appropriate to the construction of an index of total factor productivity (TFP) when output is reckoned in value-added terms and applied it to the case of the organised segment of Indian manufacturing. That paper also proposed a method for relaxing the assumption of perfect competition in product markets. The principal conclusion that emerged was that there was a transition in the early 1980s from a high positive rate of trend growth in productivity to a significant negative rate, a result contrary to Ahluwalia's (1991) conclusion, based on deflating value added only by the output price, that the trend shift was from negative to positive productivity growth. Our result is broadly in conformity with the conclusion of Balakrishnan and Pushpangadan (1994) although their measure of productivity growth, based on separately deflating output and material inputs by their respective price indices, also suffers from significant measurement bias.

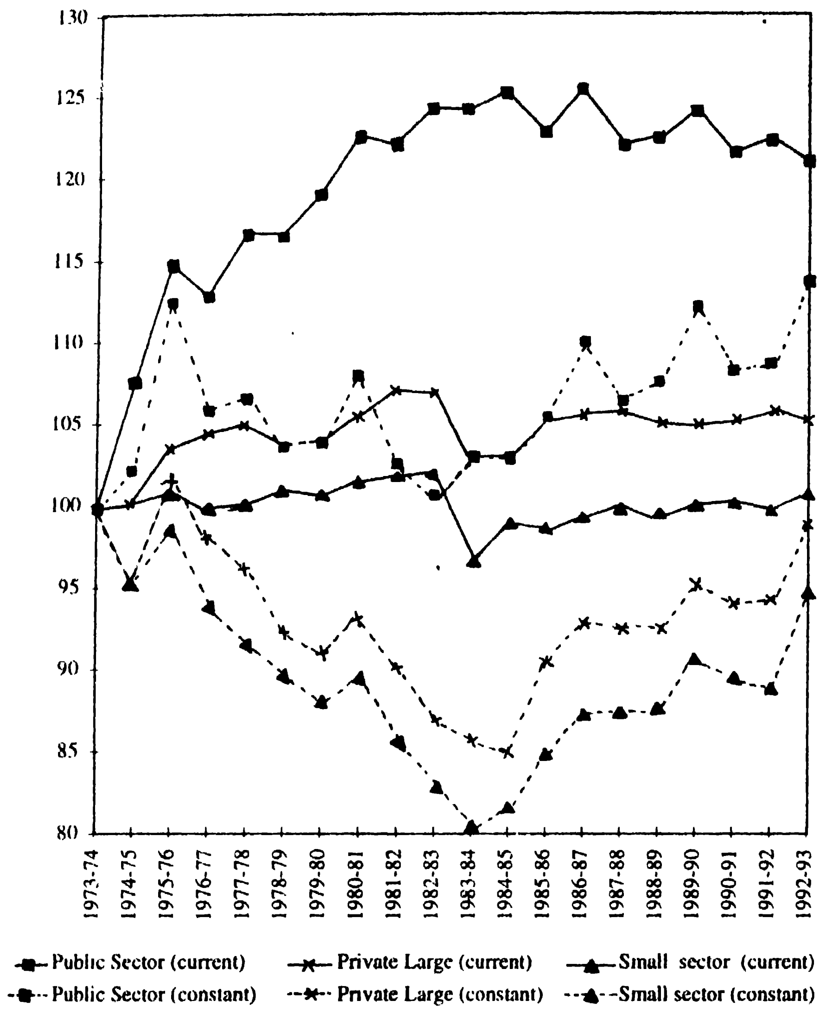
These attempts at measuring manufacturing productivity all operate at a high level of aggregation involving manufacturing as a whole save the unorganised segment which falls outside the scope of the *Annual Survey of Industries*, their common source of data. A measure of aggregation bias is inevitable in all such studies based as they are on broad surveys: even disaggregation up to the enterprise level cannot help if only because many enterprises produce a mix of products rather than single homogeneous products. Surveys that are fine-tuned to pick up data for precisely delineated production activities will, in practice, likely fall short of the required ideal. But at least in the Indian case, the ASI data themselves reveal pronounced variations within organised manufacturing in respect of wage rates, profit rates and techniques that cannot be ignored. While the severity of these variations depends on the particular scheme of disaggregation one considers, the variations are assuredly non-random and call for a disaggregated analysis of productivity to the extent feasible. A major purpose of the present paper is to study productivity trends in Indian industry on the basis of a particular scheme of disaggregation. The disaggregated productivity measures are then suitably aggregated to provide a revised index of productivity for Indian manufacturing.

The scheme divides organised manufacturing into sub-sectors by the criteria of ownership (public versus private) and enterprise size (small versus large). This disaggregation has a dual purpose. One is to eliminate as closely as is possible what we believe to be some major potential sources of aggregation bias. The other is to shed some light on the public/private and small/large dichotomies that have featured among the main lines of the Indian debate concerning industrial performance and industrial policy. The ASI data have not, to the best of our knowledge, been previously employed to this effect.

The third aim of the paper is to reconsider the conventional interpretation of total productivity measures in terms of supply-side factors alone. We argue that this interpretation – treating growth accounting as a branch of supply-side economics – is generally untenable. This is not to say that the productivity measures themselves are without value. Rather, these measures provide an informative starting point for a more considered analysis of the determinants of industrial performance which would include not just conventional supply-side factors but also such phenomena as external economies from learning and the dynamic division of labour on the one hand and, on the other, variable rates of capacity utilisation and growth of resources that derive from demand constraints or inducements. We employ the productivity indices developed here to present some evidence in support of this general argument.

The plan of the paper is as follows. Section II considers the divergence in estimates that have been obtained in the Indian case when different procedures for aggregating outputs were employed. It then demonstrates that growth accounting at an aggregated level will yield biased estimates of productivity when factor prices are not identical across included production units – such bias can be eliminated only if appropriate disaggregation is undertaken. Section III considers the sources of heterogeneity relevant to the organised segment of Indian industry. It makes a case for disaggregating by size and ownership and the method by which disaggregated data for *manufacturing* can be gotten from *industry* data available in the ASI. Important data limitations that remain in implementing our proposal are also underlined. Section IV reports the results on disaggregated productivity trends. The disaggregated indices are then aggregated to get the productivity index for manufacturing. The biases due to inappropriate aggregation are presented together with those due to inappropriate deflation of value added, the former tending to be considerably smaller than the latter. Section V evaluates the supply-side interpretation of accounting-based growth decompositions and furnishes some evidence in support of external economies and/or demand-side influences on measured productivity.

Figure 1: Indices of Material Input to Output by Sub-Sectors



II
Aggregation under Input and Output Heterogeneity

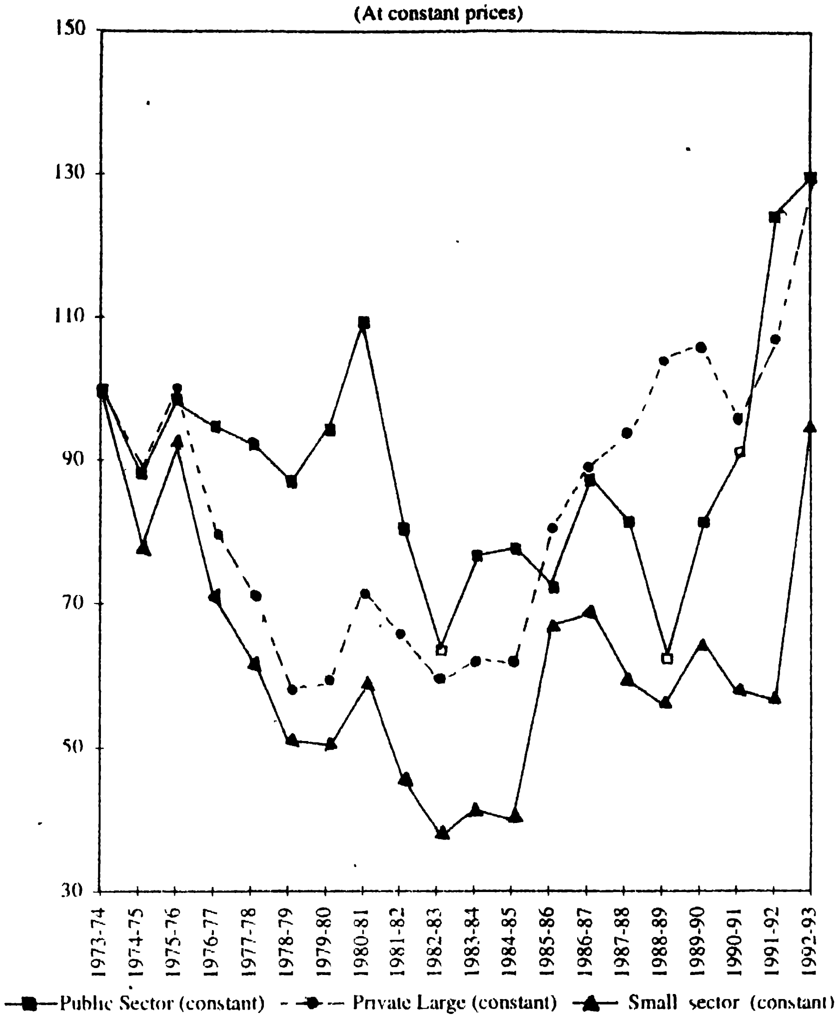
A distinction needs to be made between aggregating outputs and inputs across heterogenous sub-sectors on the one hand and positing an aggregate production function across such sub-sectors. Conventional index numbers can be constructed of course to provide aggregative measures of outputs. For example, the value of output for each sub-sector is deflated by its own output price index and the results aggregated across the sub-sectors to provide an index of real output for the manufacturing sector as a whole. The aggregate index can then be used to define growth rates as well. Input measures such as total employment or capital invested are, however, usually obtained as simple sums of the component levels.

However, if outputs are heterogeneous in the first place (were they not so, there would be no need to carry out the above-described aggregation), then, an aggregate production function cannot be posited unless inputs are homogeneous in terms of both quality and price. The production function is the technological relationship between inputs and a homogeneous output with a single price. If heterogeneous outputs have their own distinct technologies, input qualities and input prices, then, there exists no 'production function' of the aggregates of such heterogenous outputs and inputs. Any such aggregate 'production function' will reflect the particular composition of sub sector outputs (and their associated inputs) prevalent in a particular year and shifts in this function over time will be an unidentifiable mix of real productivity changes in the sub-sectors as well as the changing composition of the aggregate output. Aggregated growth accounting is implicitly based on the construct of such an aggregate production function. Hence, if output heterogeneity is recognised, then, the *generally* proper procedure would be to (1) determine total factor productivity growth (TFPG) for each sub-sector separately and (2) determine the TFPG of the manufacturing sector as the weighted sum of the TFPGs for sub-sectors with weights equal to the real output (value-added) shares of the sub-sectors in some *base year*. However, if *input prices and qualities* are identical across all sub-sectors, it is shown below that aggregated growth accounting will yield the same results as this disaggregated procedure. In all other cases, any measure of TFPG obtained from output and input aggregates will be biased. Whether such bias is systematically large or negligibly random over time cannot be predetermined.

Table 1: Wage and Profit Rates by Sub-Sectors

Year	Product Wage (Rs at 1970-71 Mfg WPI)			Gross Profit Rate (Per Cent at Current Prices)		
	Public Sector	Private Large	Small Sector	Public Sector	Private Large	Small Sector
1973-74	3931	3492	1597	11 0	32.4	30.0
1974-75	4092	3232	1540	12.4	38 4	33.9
1975-76	4325	3436	1617	12.0	30.9	27.7
1976-77	4360	3336	1639	13.2	35.8	32.6
1977-78	4467	3549	1755	11.6	36.1	32 4
1978-79	4421	3963	1730	12 0	41.4	33.0
1979-80	4427	3496	1685	10 1	40.3	30.6
1980-81	4052	3179	1772	9 2	39.0	29.9
1981-82	4279	3391	1722	12 7	36 8	30.5
1982-83	4866	3817	2177	13.5	36.0	26.2
1983-84	5336	4377	2031	10.1	37.2	33.5
1984-85	5552	4646	2108	8.8	38.4	33.3
1985-86	5585	4833	2225	16.9	32.2	24.8
1986-87	6069	5079	2289	13.7	34.7	28.6
1987-88	6330	5140	2299	15.1	32.6	32.2
1988-89	6361	5254	2416	20.0	33.8	36.3
1989-90	7021	5371	2433	18.0	37.1	37.8
1990-91	6734	5445	2545	17 1	37.6	37.4
1991-92	6240	5471	2572	12.4	34.2	38.7
1992-93	6805	5467	2740	14.2	33.3	30.6
Mean	5263	4299	2045	13.2	35.9	32.0
(Index)	257	210	100	100	272	242

Figure 2: Indices of Productive Capital to GVA by Sub-Sectors
(At constant prices)



The points made above can be concretely illustrated for the Indian case. Consider the two most extensive studies of productivity growth in Indian manufacturing [Goldar 1986 and Ahluwalia 1991]. We leave aside the problem of inappropriate deflation of value added which afflicts both studies. Goldar provided TFPG estimates for small-scale factories and for large-scale factories (including electricity generation) by deflating the respective aggregate values of outputs by the manufacturing wholesale price index.[1] If P_{it} and Q_{it} represent output price and quantity for the i-th sub-sector in year t, then, the aggregate Laspeyres' price index P (the manufacturing WPI with base weights) is given by $P_t = \Sigma P_{it}Q_{i0}/\Sigma P_{i0}Q_{i0}$ and $P_0 = 1$. Using P as the deflator, the output index is given by

$$Q_{Gt} = \frac{\Sigma P_{it}Q_{it}}{P_t} = \frac{\Sigma P_{it}Q_{it}}{P_{it}Q_{i0}} (\Sigma P_{i0}Q_{i0}) \quad ...(1)$$

Since $Q_{G0} = \Sigma P_{i0}Q_{i0}$, when base prices P_{i0} are set equal to one we have

$$Q_{Gt} = \frac{\Sigma P_{it}Q_{it}}{\Sigma P_{it}Q_{i0}} (\Sigma Q_{i0}) \quad ...(2)$$

Thus, Goldar's procedure for aggregation yields an output index that weights base and current period component outputs by their *current prices*. By contrast, Ahluwalia chooses to deflate sub-sectoral (2-digit level) output values directly by their respective wholesale price indices. Thus, her output index for the i-th sector is given by $Q_{Ait} = P_{it}Q_{it}/(P_{it}/P_{i0}) = P_{i0}Q_{it}$. Setting base period prices to 1 gives $Q_{Ait} = Q_{it}$. Her measure of aggregate output is given by $Q_{At} = \Sigma Q_{Ait} = \Sigma Q_{it}$ or, equivalently, by

$$Q_{At} = \frac{\Sigma Q_{it}}{\Sigma Q_{i0}} (\Sigma Q_{i0}) \quad ...(3)$$

Comparing equations (2) and (3) makes clear that Ahluwalia's procedure gives the correct index of aggregate output whereas Goldar's output index will capture not just output changes but also the effect of changing prices of component outputs.[2] To put it differently, the growth rate of Goldar's output index is the weighted sum of sub-sector growth rates, where the weights are output shares at *current* prices; the growth rate derived from Ahluwalia's index is a similar weighted sum but with weights being output shares in the *base* period.

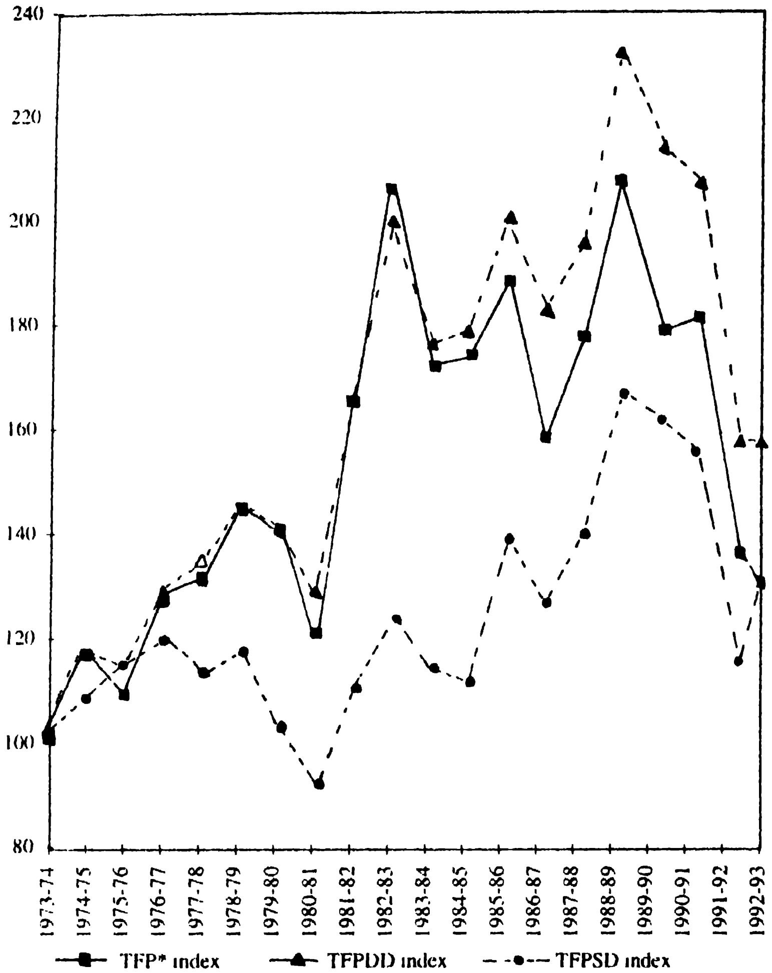
These divergent procedures for determining manufacturing output yield (single-deflated) productivity measures that are substantially different. For the 1960-80 period, Goldar's estimate of TFPG is +1.2 per cent per annum whereas Ahluwalia's estimate is only -0.4 per cent.[3] Should we conclude, then, that Ahluwalia's TFPG estimates are more reliable than those of Goldar (and of Balakrishnan and Pushpangadan 1994 and Rao 1996)? By the argument made at the outset of this section, Ahluwalia's procedure is also not error-free unless input qualities and prices are uniform across all sub-sectors.

To see this, let V_i be real value added in the i-th industry obtained by separately

Table 2 Input Intensities by Sub-Sectors

Year	Material Inputs to Output (at Current Prices)			Productive Capital to GVA (at Current Prices)			Employees to GVA (at Constant Prices)		
	Public Sector	Private Large	Small Sector	Public Sector	Private Large	Small Sector	Public Sector	Private Large	Small Sector
1973-74	0.63	0.72	0.84	3.7	1.7	2.0	23	20	34
1974-75	0.68	0.72	0.84	3.5	1.5	1.8	20	17	27
1975-76	0.73	0.75	0.85	3.7	1.7	2.1	21	20	33
1976-77	0.71	0.76	0.84	3.9	1.6	1.9	17	17	25
1977-78	0.74	0.76	0.84	4.1	1.5	1.9	16	15	22
1978-79	0.74	0.75	0.85	4.2	1.4	1.9	15	12	18
1979-80	0.75	0.75	0.85	4.7	1.4	2.0	15	13	18
1980-81	0.78	0.76	0.85	4.9	1.5	1.9	17	15	20
1981-82	0.77	0.78	0.86	4.2	1.6	1.9	13	12	15
1982-83	0.79	0.78	0.86	3.8	1.7	2.0	10	9	12
1983-84	0.79	0.75	0.82	4.3	[illegible]	1.9	12	8	11
1984-85	0.79	0.75	0.84	4.7	1.6	1.9	12	8	10
1985-86	0.78	0.76	0.83	3.2	1.9	2.5	11	9	12
1986-87	0.79	0.77	0.84	3.3	1.8	2.2	13	9	14
1987-88	0.77	0.77	0.84	3.4	1.9	2.0	11	9	13
1988-89	0.78	0.76	0.84	2.7	2.0	1.8	11	8	12
1989-90	0.79	0.76	0.85	3.0	1.9	1.8	11	8	14
1990-91	0.77	0.76	0.85	3.5	1.9	1.8	10	7	12
1991-92	0.78	0.77	0.84	4.0	2.1	1.8	14	7	11
1992-93	0.77	0.76	0.85	3.8	2.2	2.1	15	8	17

Figure 3: Productivity Indices, Public Manufacturing



deflating current value added by the respective price index. To set aside the problem of the incorrect deflation of value added, we may assume that output is produced without any material inputs so that value added and gross output are equal.

Aggregate value added V_T and its rate of growth $g(V_T)$ are given by

$$V_T = \Sigma V_i \text{ and } g(V_T) = \Sigma s_{iV} g(V_i) \quad ...(4)$$

where s_{iV} is the share of the i-th industry in total real value added. All studies of productivity growth in Indian manufacturing obtain aggregate factor inputs as the simple, unweighted sum of sub-sector inputs, i e, homogeneity of factor qualities is assumed. Thus, total capital stock is $K_T = \Sigma K_i$ and total labour input is $L_T = \Sigma L_i$. It follows that factor input growth rates are given by

$$g(K_T) = \Sigma s_{iK} g(K_i) \text{ and } g(L_T) = \Sigma s_{iL} g(L_i) \quad ...(5)$$

where s_{iK} and s_{iL} stand for the share of the i-th industry's capital and labour inputs respectively in their respective aggregates.

Ahluwalia then proceeds to derive TFPG for aggregate manufacturing on the basis of output and factor growth measures given by (4) and (5) and factor shares computed from aggregate data on value added and emolu-ments of employees. Let α_T stand for the share of aggregate labour in aggregate value added. Then, $TFPG_A$, Ahluwalia's measure of TFPG in manufacturing is given by

$$TFPG_A = g(v_T) \quad \alpha_T g(L_T) - (1-\alpha_T) g(K_T) \quad ...(6)$$

In view of the aggregations in (4) and (5), this can be rewritten as

$$TFPG_A = \Sigma\{s_{iV} g(V_i) - \alpha_T s_{iL} g(L_i) - (1-a_T) S_{iK} g(K_i)\} \quad ...(7)$$

Clearly, this procedure first identifies heterogeneous outputs but then goes on to posit an aggregate production function whose constituents are aggregated output and inputs.

But if outputs are heterogeneous, then, the general presumption is that their production functions are distinct. Thus,

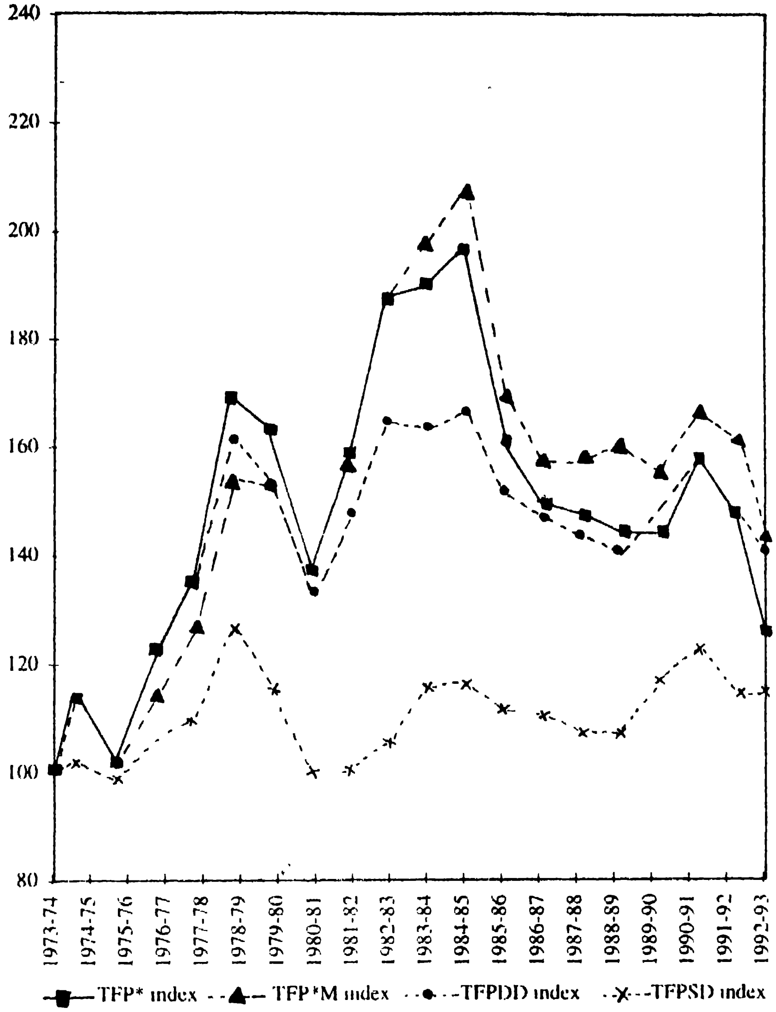
$$V_T = \Sigma V_i = \Sigma G_i(L_i, K_i, t) \quad ...(8)$$

where the G_i are sub-sectoral production functions. The growth decomposition of (8) yields

Table 3. Disaggregated Total Factor Productivity Indices

Year	TFP*	TFP*(M)	TFP*(M)	RFP (Double Deflated)			RFP (Single Deflated)			Real Output		
	Public Sector	Private Large	Small Sector	Public Sector	Private Large	Small Sector	Public Sector	Private Large	Small Sector	Public Sector	Private Large	Small Sector
1973-74	100	100	100	100	100	100	100	100	100	100	100	100
1974-75	115.6	114.9	127.8	116.2	112.3	123.0	106.7	101.0	101.9	125.7	109.0	105.3
1975-76	107.6	96.9	102.2	112.6	102.6	106.7	112.0	97.4	99.5	161.2	117.3	115.4
1976-77	125.7	113.1	134.8	127.8	121.6	132.3	117.9	105.5	109.8	184.7	127.9	128.0
1977-78	130.1	125.2	157.8	133.0	133.2	148.5	111.2	108.7	113.0	204.4	140.2	146.4
1978-79	143.7	152.9	186.2	143.1	159.9	172.1	115.7	126.0	119.4	247.2	155.3	161.0
1979-80	139.5	151.3	196.8	139.1	151.2	165.7	102.1	114.4	109.7	251.9	149.6	161.7
1980-81	119.5	132.3	174.3	126.6	131.3	152.7	90.7	99.3	101.6	254.5	145.7	153.4
1981-82	163.5	156.4	228.1	162.9	146.4	177.7	109.0	99.6	103.8	313.7	159.9	169.6
1982-83	204.0	185.9	286.9	198.0	163.3	200.0	122.8	105.6	108.5	375.5	183.6	188.2
1983-84	170.2	196.2	312.3	174.2	162.3	181.8	112.7	114.8	121.6	352.1	181.9	186.7
1984-85	172.6	205.9	309.1	176.6	165.6	194.8	110.5	115.8	120.1	396.5	187.3	196.1
1985-86	187.2	168.1	212.3	199.2	151.2	142.9	137.7	110.7	100.9	428.3	189.4	225.6
1986-87	156.7	156.2	191.6	180.8	146.1	146.1	125.9	110.4	106.4	413.8	202.8	233.1
1987-88	175.8	156.6	205.7	193.5	142.7	164.9	138.8	106.5	116.7	436.4	217.7	259.7
1988-89	205.9	159.5	215.0	229.9	139.8	177.8	165.6	106.7	129.1	509.7	237.6	290.9
1989-90	177.6	153.2	177.3	212.3	144.7	168.5	160.2	116.5	130.8	484.6	285.4	322.4
1990-91	180.6	166.3	199.5	205.7	157.2	185.5	154.5	122.8	137.8	566.0	299.0	350.5
1991-92	136.0	160.6	209.8	156.0	147.6	190.1	114.8	113.5	141.6	382.5	317.4	373.2
1992-93	130.6	132.8	121.2	157.9	130.8	140.4	131.6	115.0	125.4	478.1	341.2	380.9

FIGURE 4: PRODUCTIVITY INDICES, PVT-LG MANUFACTURING



$$g(V_T) = \Sigma \frac{V_i}{V} \{\alpha_i g(L_i) + (1-\alpha_i)g(K_i) + TFPG_i\} \quad ...(9)$$

where $TFPG_i$ is the rate of growth of total factor productivity in the i-th industry. Let $TFPG = \Sigma(V_i/V)TFPG_i$, i e, the weighted sum of the component TFPGs. Then, we get the following expression for TFPG from (9).

$$TFPG = \Sigma s_{iV} TFPG_i = \Sigma s_{iV} g(V_i) - \Sigma s_{iV}\{\alpha_i g(L_i) + (1-\alpha_i)g(K_i)\} \quad ...(10)$$

Thus, whereas $TFPG_A$ is derived from aggregate output, aggregate inputs and aggregate input shares, TFPG is derived as the weighted sum of the TFPG of the component industries.

Consider now the difference between the two measures of productivity growth in (7) and (10). After some simplification, we get

$$TFPG_A - TFPG = \Sigma\{s_{iV}\alpha_i - s_{iL}\alpha_T\}g(L_i) + \Sigma\{s_{iV}(1-\alpha_i) - s_{iK}(1-\alpha_T)\}g(K_i) \quad ..(11)$$

It follows that the two measures give the same results if and only if the following conditions hold:

$$s_{iV}\alpha_i = s_{iL}\alpha_T \quad \text{and} \quad s_{iV}(1-\alpha_i) = s_{iK}(1-\alpha_T) \quad \text{for all j} \quad ...(12)$$

The first of these conditions may be expanded from the definitions of the relevant shares as

$$\frac{V_i}{V_T}\frac{w_i L_i}{V_i} = \frac{L_i}{L_T}\frac{\Sigma w_i L_i}{V_T} \quad \text{for all j}$$

$$\text{or} \quad w_i \Sigma L_i = \Sigma w_i L_i \quad \text{for all j} \quad ...(13)$$

where w_i is the wage rate prevalent in the i-th industry. Clearly, condition (13) holds only if the wage rate is identical in all industries. Similarly, the second of the above conditions holds only if the profit rate is identical in all industries. In all other cases, the aggregation procedure adopted by Ahluwalia will lead to a biased measure of TFPG. The equality of factor prices across Ahluwalia's disaggregation (at the 2-digit level) demonstrably fails to hold in the ASI data. Hence, her measure of TFPG as well as all other extant measures (including the author's own aggregated index for manufacturing) incur a bias.

Condition (12), in the case of labour, can also hold when wage rates are not uniform across industries *provided* the share s_{jL} of the j-th sector in aggregate labour input is taken not in physical terms but in value terms, i e,

$$s_{jL} = \frac{w_j L_j}{\Sigma w_i L_i} \quad ...(14)$$

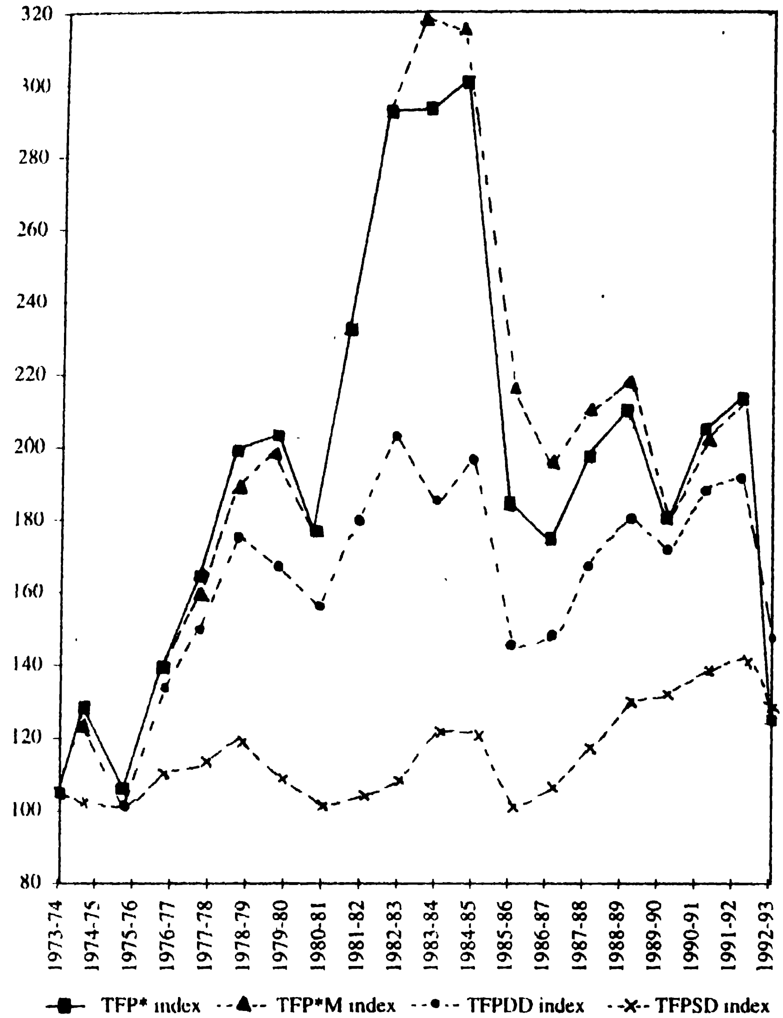
In effect, the labour input share of the j-th sector is taken in efficiency units (the wage implicitly providing the efficiency weight). Similarly, in the case of capital, when profit rates are not uniform across industries, the share s_{jK} of the j-th sector in aggregate capital input is taken not in physical terms but in value terms, i e, the sector-specific capital rentals provide the efficiency weights. In short, taking the weighted average of $TFPG_i$ is equivalent to computing aggregate TFPG directly but on the basis of the price-weighted sums of component inputs. The weighted input aggregates can be thought of as input levels in efficiency units. Ahluwalia's procedure correctly excludes the influence of output price variations but excludes, incorrectly, the influence of input price variations as well.

In other words, Ahluwalia goes only half the way toward disaggregation. While output *heterogeneity* (in physical and price terms) within manufacturing is correctly recognised, it errs in constructing TFPG estimates from growth decomposition based on an aggregate 'production function' which ignores *factor heterogeneity*. Given the wide divergence in factor prices across sub-sectors, to deflate component value-addeds separately and then to estimate TFPG from their aggregates is theoretically inconsistent and will produce a bias. Goldar's procedure, on the other hand, implicitly assumes that output is

TABLE 4 AGGREGATED TFP INDICES

Year	TFP* Weighted	TFP* Unweighted	TFPDD Unweighted	TFPSD Unweighted
1973-74	100	100	100	100
1974-75	117.1	116.8	114.8	102.4
1975-76	99.8	99.7	102.4	98.0
1976-77	119.5	118.8	118.8	103.5
1977-78	132.5	131.7	129.8	104.7
1978-79	157.6	156.6	148.3	114.8
1979-80	158.6	150.2	139.6	102.0
1980-81	138.3	129.3	125.4	91.4
1981-82	173.2	160.3	146.4	96.5
1982-83	211.8	196.0	169.2	105.2
1983-84	220.5	191.2	162.7	111.3
1984-85	223.7	195.1	165.6	110.1
1985-86	183.0	167.4	157.3	112.0
1986-87	164.8	152.2	151.0	110.6
1987-88	172.0	159.3	156.0	113.6
1988-89	181.9	168.4	165.8	122.8
1989-90	162.3	157.7	163.3	128.2
1990-91	176.3	168.0	169.7	129.5
1991-92	170.0	157.9	160.0	120.3
1992-93	130.3	127.1	139.8	121.6

FIGURE 5: PRODUCTIVITY INDICES, SMALL MANUFACTURING



homogenous at the chosen levels of aggregation. His procedure is therefore theoretically consistent: aggregate TFPG is constructed from an assumed production function in which real output is obtained from deflating the value of output by an aggregate price index and taking, in effect, the mean wage as the marginal product of labour (and similarly for capital). But it is liable to be empirically flawed to the extent that there is genuine heterogeneity and diverse trends in output and input prices across the sub-sectors (this, of course, seems presumptively true as a quick perusal of the WPI or wage numbers across manufacturing sub-sectors reveals). The wide divergence between Goldar's and Ahluwalia's estimates of TFPG seems due principally to their different aggregation procedures and *both* estimates may be subject to potentially serious aggregation biases though the source of bias is different in each case. This conclusion also applies, of course, to the estimates due to Balakrishnan and Pushpangadan, and Rao.

But going half the distance is not necessarily better than going no part of the distance. Ideally, biases on the output and input sides can only be eliminated by following the procedure outlined above, i e, constructing sub-sectoral TFPGs and then taking an appropriate weighted average of these (or equivalently, by weighting sub-sectoral factor growth rates in value or efficiency terms). Given the accounting procedure based on single deflation adopted by both Goldar and Ahluwalia, there are *no data problems* to carrying out the correct disaggregation. In the following two sections, we seek to implement, as best as we can, the disaggregation procedure noted here *together* with the deflation procedure discussed in Rao (1996). This exercise is, however, constrained by available data.

III
Sources of Heterogeneity

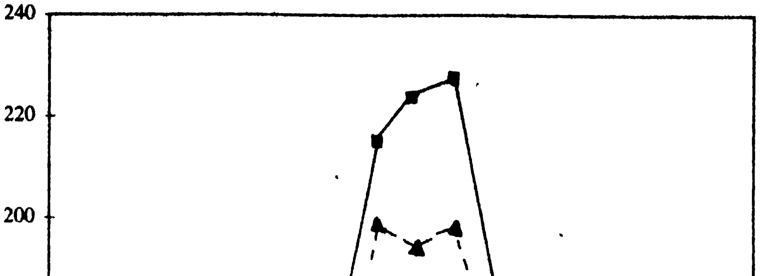
Heterogeneity within the organised segment of Indian manufacturing may be identified along at least three dimensions: the commodity composition of manufacturing, the size distribution of enterprises and ownership type. Ideally, disaggregation along all three dimensions is desirable but due to resource limitations, we confine our exercise to the size and ownership criteria. We believe that these two axes likely capture much the most important sources of heterogeneity (which we discuss below), especially as some of the main divisions along the first dimension are known to be significantly related to either size or ownership. Our purpose is both to limit aggregation bias in measuring productivity trends for the sector as a whole and to provide a theoretically meaningful disaggregation. From the latter standpoint, there is a large body of literature that has debated performance of the public sector relative to the private and of small enterprises relative to large. To be sure, a great deal of truly 'small' manufacturing occurs outside of the organised segment covered by ASI.[4] Nonetheless, there are significant differences along the size dimension even within the organised segment that warrant the tack we have adopted.

TABLE 5: TOTAL FACTOR PRODUCTIVITY GROWTH RATES

Productivity Index	1973-74 – 1980-81		1981-82 – 1992-93		1973-74 – 1992-93)	
	(Per Cent)	t-Ratio	(Per Cent)	t-Ratio	(Per Cent)	t-Ratio
Total Manufacturing						
Weighted TFP*	6.5	4.0	-2.8	-3 0	2 3	3.0
Unweighted TFP*	5.5	3.2	-2.2	-2 8	2.0	3.0
TFPDD	4.6	3.2	(-0.2)	-0.4	2.2	5.3
TFPSD	(-0.2)	-0.2	2.1	5.7	1.3	5.5
Public Sector						
TFP*	3.7	2.6	(-1.8)	-1.7	2.3	3.5
TFPDD	4.0	3.4	0.0	0.0	3.2	5.7
TFPSD	(-1.0)	-0.7	(+2.2)	2.0	1.9	4.1
Private Large						
TFP*(M)	5.9	3.6	-2.0	-2.5	2.2	3.3
TFPDD	5.9	3.6	-1.1	-2.3	1.4	2.9
TFPSD	(+1.6)	1.3	0.9	2.3	0.6	2.6
Small Manufacturing						
TFP*(M)	10.0	5.1	-5.3	-3.5	(+2.4)	2.1
TFPDD	7.4	4.6	(-1.0)	-1.0)	2.0	3.2
TFPSD	(+1.3)	1.3	2.3	3.6	1.4	4.9

Note: Growth rates in parentheses are statistically insignificant at the 5 per cent level.

FIGURE 6: AGGREGATED TFP INDICES, MANUFACTURING



The ASI data are available in disaggregated form for various size classes of enterprise (size being measured in terms of both capital invested and employee strength) and for certain ownership categories (including public, private and joint ownership). However, this disaggregation is available for all of *industry* which includes *manufacturing* proper, repairs and utilities (electricity, gas and water). To isolate the manufacturing sector from industry and simultaneously secure the size-and-ownership disaggregation, we have adopted the following course. First, rather than deal with the entire size distribution, we confined our attention to a simple dichotomy of 'small' and 'large' enterprises. Small enterprises are defined as those employing between 10 and 99 employees (firms with less than 10 employees are not covered in the ASI) so that large enterprises form the residual employing 100 or more employees.[5] Second, we assume that all utilities are confined to the large sector. Far and away the largest part of output and capital in utilities is concentrated in electricity generation where our assumption seems to be entirely appropriate. Errors of classification cannot be ruled out but are likely to be negligible. But we made no similar assumption as regards 'Repairs' as that would be clearl by erroneous.[6] Hence, in the disaggregation that follows, the term "manufacturing" includes the repairs industry. For the 1973-92 period, the mean share of repairs was 1.6, 2.4 and 0.7 per cent (of the corresponding total for manufacturing + repairs), in terms of nominal value added, employment and (real) productive capital employed respectively. This should be borne in mind when considering the disaggregated results discussed in the next section. Third, we also assumed that all public sector enterprises are confined to the 'Large' category, an assumption that is virtually beyond doubt. Note that from these three steps we may deduce that 'Small (Private) Manufacturing' is simply 'Total Industry' *less* 'Large Industry'. Fourth, we took the innocuous step of including the joint sector in the private sector so as to isolate a public sector that is entirely publicly owned. Finally, to sort out the share of the public and private sectors in utilities, we relied on the CSO's published information on 'Net Domestic Product from Public Sector by Industry and by Type of Authority'. The public sector's NDP derived from 'Electricity, Gas and Water Supply' as per the CSO, constituted 93 per cent of the total net value added from utilities as per the ASI (this is the mean value for the period 1973-74 through 1984-85). Therefore, we split ASI utilities between the public and private sectors in the ratio 93:7. Though this is an approximation involving two different sources of data, there is no reason to doubt its veracity. The upshot of these assumptions may be stated succinctly and with obvious notation as follows:

'SmallL-Mfg' = Total-Ind – Large Ind
'Public-Mfg' = Pub-Ind – 0.93(Utilities)
'Pvt-Lg-Mfg' = Large-Ind – Pub-Ind – 0.07(Utilities)
'Total-Mfg' = Total-Ind – Utilities

with the qualification that "manufacturing" here connotes manufacturing proper plus repairs. Hereafter, the component segments of manufacturing will be called 'Small', 'Pvt-Lg' and 'Public'. Tables A1-A3 present the ASI data, together with the real capital stock estimates, for the three sectors.[7]

What are the sources of heterogeneity within this classification of organised manufacturing? There can be little doubt that it captures part of the heterogeneity of output (and associated input mixes). Even where the 'same' product is manufactured in the large and small sectors, there are likely to be differences in quality.

TABLE 6. RELATING PRODUCTIVITY AND OUTPUT GROWTH

Variables	Correlation Coefficient		
	1974-75 – 1980-81	1981-82 – 1992-93	1973-74 – 1992-93
TFPG Manufacturing*			
And manufacturing QG	0.63	0.51	0.55
TFPG Public Manufacturing*			
And public manufacturing QG	0.47	0.77	0.69
And manufacturing QG	0.68	0.73	0.69
TFPG Pvt-Lg Manufacturing*			
And Pvt-Lg manufacturing QG	0.73	0.33	0.45
And manufacturing QG	0.69	0.43	0.54
TFPG Small Manufacturing*			
And small manufacturing QG	0.49	0.16	0.25
And manufacturing QG	0.52	0.23	0.32

Note: Bold-faced coefficients are statistically significant at the 5 per cent level.

More important, there is also a division of labour into even broader categories of manufacturing among the small, public and pvt-lg sectors that derive either from government policy of reservation and licencing or from market restraints and incentives. Product market structure can also be expected to be correlated with production specialisation. There is reason to believe that pvt-lg firms will generally command greater ability to fix output prices compared with small firms. By contrast, while public firms may have a similar ability to fix prices, their prices are more likely to be administered by government for political, macro-economic or social reasons. These differences imply not only that our classification will capture some of the production function differences within manufacturing but also that the importance of correcting the conventional productivity measure for product market monopoly power (see Rao 1996, for details) will also vary by sector.

A second major source of heterogeneity arises from systematic segmentation in the *factor markets*. In the labour market, there are two aspects to this segmentation: variable skill composition and variable wages for the same skills. The error of aggregating 'employees' without regard to skill composition is at least partly avoided in our disaggregated analysis for average skill levels are doubtless higher in the public and pvt-lg sectors than in the small. Table 1 (first three columns) shows the product wage for the three sectors over the study period.[8] The mean product wage over the period was 2.57 times as large in the public sector as in the small sector and 2.1 times as large in the pvt-lg sector. Whether these differences reflect human capital differences alone or market 'imperfections' as well is not relevant here. What matters is that the differences are far from negligible and aggregates of employment and mean wage rates will miss quality and/or price differences relevant to growth accounting. Although wage trends (based on semi-log regressions) in the public and pvt-lg sectors were fairly similar, the product wage in the small sector (in relation to the product wage in the other two) rose considerably faster (1.7 per cent per annum versus 0 per cent) through 1980-81 and significantly slower (3.3 per cent versus 3.9 per cent) in the remainder of the study period.

The last three columns in Table 1 show the differences in profit rates. The mean profit rate is only about 12 per cent higher in the pvt-lg sector compared to the small but 172 per cent higher than in the public sector. Even if public enterprises do not maximise profits, the sort of growth accounting exercises undertaken here and elsewhere in the literature must necessarily assume that enterprises minimise costs (at least in the sense of achieving production efficiency). Given this assumption, the observed profit rate differences may then be attributed to capital market 'imperfections': the public sector has access to funds at below-market rates. The apparently small difference in profit rates between the small and pvt-lg sector may also hide a complex set of factors rather than revealing a reasonably efficient capital market. For example, profit rates in the pvt-lg sector are notably greater than interest rates on long-term capital available from the organised financial system and may reflect monopoly returns. The small sector must be distinguished from the pvt-lg not only by the expectation that they would have less power to fix prices in goods markets but also by the expectation that they would have less access to organised finance. The latter consideration suggests that measured profit rates in the small-scale sector may well be high, perhaps even higher than in the large sector but as a reflection of capital market segmentation rather than of market power.[9] Over the study period as a whole, the profit rate in the public sector grew at the exponential rate of 2 per cent per annum whereas profit rates in the private sectors show no statistically significant trend.

A final source of heterogeneity arises from differential *access to technology* in conjunction with factor (and product) market segmentation. In positing a common production function across sub-sectors, aggregate growth accounting implicitly assumes a perfect market in technology so that all enterprises have competitive access to it. But if technology markets are imperfect, then, the segmentation of product and factor markets, will support the coexistence of diverse enterprises with access to diverse technologies (not just diverse techniques).[10]. From a production standpoint, the enterprises in effect operate in virtually distinct economies (distinct technologies, product markets and factor markets). Put differently, there is reason to believe that there is a *structural* simultaneity between the set of techniques available to different groups of firms and the factor prices they face (this goes beyond the simultaneity, implied by profit-maximisation, between *techniques* and factor prices). Absent this link, we could include all observed techniques to represent the economy-wide technology. Otherwise, aggregation will be founded on a mongrel technology. Since our disaggregation includes both public and private, large and small enterprises, some of this differential in access to technology will be captured.

The Goldar and Ahluwalia studies cited earlier are based on the single deflation of value added which introduces its own error (as demonstrated, for aggregate manufacturing, in Rao 1996). This error can be corrected by following an appropriate time-dependent procedure for deflation. However, if we wish simultaneously to correct the aggregation biases of past studies, we are confronted with a data limitation. The problem is that the correct procedure for *deflation* requires data on output and material input prices (a problem not confronted until

TABLE A1. OUTPUT AND INPUTS
(Public Manufacturing, 1973-74 – 1992-93)

Year	Value of Output (Rs Lakh)	Net Value Added (Rs Lakh)	Depreciation (Rs Lakh)	Material Inputs (Rs Lakh)	Emoluments (Rs Lakh)	No of Employees	Working Capital	Fixed Capital	Productive Capital
							(Rs Lakh, 1960 Repl Values)		
1973-74	222239	67386	14131	140077	48038	876000	45017	358466	403483
1974-75	347723	95427	15686	236520	63350	917083	57539	371109	428648
1975-76	467780	111598	22730	339860	74482	1005878	63910	443676	507586
1976-77	553947	135358	30398	394718	80937	1059646	76119	559591	635710
1977-78	630180	134242	34211	465222	88676	1107875	70217	601721	671938
1978-79	778388	166514	45556	573789	105059	1323939	87261	732024	819285
1979-80	953822	187787	48590	717445	125437	1312855	90563	811290	901854
1980-81	1148795	199819	58547	890429	141329	1355619	106144	810005	916149
1981-82	1524635	288170	59346	1177120	164436	1420134	115884	840072	955956
1982-83	1867291	340475	60792	1466023	192824	1456422	121861	832033	953895
1983-84	1907036	326126	82735	1498175	231122	1464369	122845	862038	984883
1984-85	2336565	383232	101906	1851427	286005	1612355	176046	953280	1129326
1985-86	2714763	487507	120043	2107213	280468	1465812	99723	935203	1034926
1986-87	2753171	458261	111889	2183022	308933	1416244	78860	938413	1017273
1987-88	3110333	579250	131289	2399794	348967	1434270	120795	993305	1114100
1988-89	3965952	733081	157023	3075850	405696	1539072	135048	828760	963808
1989-90	4166324	736430	155982	3273912	411716	1282328	130158	871492	1001650
1990-91	5336626	1008745	219562	4108320	498178	1493937	165717	1283266	1448983
1991-92	4280531	742765	219284	3318485	479584	1399078	112631	1182037	1294668
1992-93	6119223	1138841	287197	4693187	666360	1601144	159785	1337456	1497241

the contribution of Balakrishnan and Pushpangadan, hereafter B-P). The former are available at the aggregate and 2-digit levels but not for the disaggregation adopted here. While a usable form of an input price index has been constructed at the aggregate level by B-P, no such usable input price index is available at the disaggregated level. To construct the latter requires not only relevant input price series (which are indeed available) but also data on the material input mixes at the sub-sectoral level. In short, the implementation of the correct deflation procedure confronts no data problem at the aggregate level. However, to implement that procedure at the disaggregated level, we have to deploy uniform output price and material input price indices or not disaggregate at all.

If the disaggregation attempted is itself of a very low order (which is the case with the scheme adopted here since the small, pvt-lg and public sectors are themselves diverse and large aggregations), then, it is arguable that the bias introduced by the use of uniform output and material price indices would also be of low order. Also, the fact that material inputs constitute close to 80 per cent of the value of manufacturing output may be argued to lead to offsetting errors from the uniform price indices (to the extent that material price changes are passed through into output prices). We hasten to add that this does not mean that the disaggregation attempted here is error-free. But as long as the relevant data problem continues to bind, a lessthan-ideal disaggregated analysis may nonetheless have some value -- if only to suggest caution in the use of growth accounting to draw strong and otherwise uncorroborated inferences about manufacturing performance either at the aggregative or disaggregative levels.

IV
Disaggregated Productivity Growth, 1973-93

Table 2 presents partial input intensities (or partial productivities) for the sub-sectors of organised manufacturing. First consider material input intensity, measured as the ratio of the value of material inputs to the value of *output*. In current price terms, Table 2 (first 3 columns) shows that the small sector was considerably more material-intensive than the public or pvt-lg sectors. In both of the large-enterprise sectors, but especially in the public sector, there was a significant rise in current-price material intensity in the first half of the study period. Figure 1 graphs the indices of material intensity in both current and constant price terms.[11] A comparison of the current- and constant-price intensities (the unbroken and broken lines respectively) shows, in fact, that the real material intensity of the private sectors (small plus pvt-lg) fell significantly through 1983-84 and rose equally sharply thereafter. For the public sector, real material intensity rose sharply in the two years after the oil shock of 1973 but thereafter followed a trend that roughly parallels the trends in the private sector. Since the output-to-material-inputs price rose significantly through 1982-83 and fell thereafter, the latter trends may be taken to reflect substitution away from materials though they may be due also to changing output composition.

Table 2 also shows the current-price capital-to-value-added ratios and the labour-to-value-added ratios for the three sub-sectors. The small sector had higher capital intensity than the pvt-lg sector in all years through 1987-88 and higher labour intensity throughout. Similarly, the public sector was considerably more capital-intensive than the pvt-lg sector although the differential narrowed somewhat over time and more labour-intensive throughout with the differential widening considerably toward the end of the study period. But direct comparisons of total 'efficiency', based on these numbers, are precluded because the labour inputs are unadjusted for quality differences and product and product market characteristics may also not be comparable. There is also a contrast in the trend of capital intensity (at current prices) between the public and pvt-lg sectors. Through the late 1970s, capital intensity fell in the pvt-lg sector but rose in the public. By contrast, it rose in the pvt-lg sector the 1980s but fell considerably in the public. These differences underline the need for disaggregation of total productivity measures.

At the same time, the strong trend shifts in the material-to-output price relative during our period render such current-price trends and comparisons of capital intensity highly misleading. Figure 2 graphs the constant-price capital intensity of value added obtained by taking productive capital at constant (replacement) prices and value added at the implicit price appropriate to converting nominal into real value added (as explained in Rao 1996). It shows a U-shaped trend in the two private sub-sectors. But observe that the rise in real capital productivity in the first phase was sharper in the small than in the pvt-lg sector and the fall in real capital productivity in the second phase was considerably greater in the pvt-lg than in the small sector. Capital intensity shows greater fluctuations in the public than in the private sectors. The public sector did not experience any noticeable rise in capital productivity until the early 1980s when it saw a rather steep rise. Following significant fluctuations between 1982-83 and 1988-89, the public sector registered a steeper fall in capital productivity than the private sectors due, no doubt, to the cumulative and current effects of liberalisation.

Lastly, observe that although labour productivity has clearly increased in all three sectors by fairly wide margins, much of this increase occurred by the year 1982-83. The fall in labour intensity was steepest for the pvt-lg sector and considerably lower for the public sector.

These observations on partial productivities present a combined picture

Table A2 Output and Inputs
(Pvt-Lg Manufacturing, 1973-74 – 1992-93)

Year	Value of Output (Rs Lakh)	Net Value Added (Rs Lakh)	Depreciation (Rs Lakh)	Material Inputs (Rs Lakh)	Emoluments (Rs Lakh)	No of Employees	Working Capital (Rs Lakh, 1960 Repl Values)	Fixed Capital (Rs Lakh, 1960 Repl Values)	Productive Capital (Rs Lakh, 1960 Repl Values)
1973-74	1179820	290974	38758	850040	151186	3103313	102575	558598	661173
1974-75	1561838	388813	42279	1130738	181102	3319262	101305	608949	710254
1975-76	1710188	382390	47225	1281056	199473	3390715	104431	627050	731482
1976-77	1915758	420546	48173	1447530	203381	3479283	106344	574392	680736
1977-78	2156983	468917	48595	1639734	232058	3648327	107530	591598	699128
1978-79	2405195	539905	61094	1804759	254274	3574222	114809	573614	688423
1979-80	2788523	616374	71393	2100756	286499	3797701	120786	587927	708713
1980-81	3238787	679865	83667	2475255	315438	3855884	110916	669590	780506
1981-82	3753849	749772	91685	2912392	341860	3725056	120010	745241	865251
1982-83	4378079	872643	111889	3393548	397942	3831354	134138	859124	993263
1983-84	4717031	1033699	157063	3526269	456947	3529537	142537	948231	1090768
1984-85	5247749	1146291	182527	3918931	511936	3448521	134716	1010729	1145446
1985-86	5689164	1154773	195448	4338943	513546	3101353	194932	1015755	1210687
1986-87	6405470	1286031	208779	4910660	568678	3115264	180058	1172182	1319206
1987-88	7375788	1419087	294373	5662328	655794	3319009	165754	1340565	1506319
1988-89	8710225	1733802	338047	6638377	701739	3223036	139867	1727336	1867203
1989-90	11754465	2340978	445270	8968217	858685	3495991	202664	1894080	2096743
1990-91	13351483	2646886	499303	10205293	933962	3463898	203569	1861751	2065320
1991-92	15748021	3046913	584716	12116391	1064004	3540550	239956	2195500	2435457
1992-93	18897218	3740220	714093	14442905	1230103	3679217	290768	2403621	2694390

broadly consonant with the picture that emerged in the analysis of aggregate manufacturing (in Rao 1996). That is, significant gains in productivity occurred via reductions in material input, capital and labour intensities in the first decade or so of the period. These gains were at least partly reversed in the second decade But there are noticeable differences in the extent of these gains and losses across the three sub-sectors which can only be combined and specified with precision by means of total factor productivity growth measures to which we now turn.

Tables 3-5 present the principal results from growth decompositions for the sub-sectors as well as for aggregate manufacturing. Table 3 shows the TFP indices, based on the exact, double-deflation and single-deflation procedures, and gross output indices for the sub-sectors. Figures 3, 4 and 5 graph these disaggregated productivity indices for the public, pvt-lg and small sectors respectively. TFP* is the productivity index based on the deflation procedure laid out in Rao (1996). When this is corrected for product market monopoly power, we get TFP*(M).

The mean markup rate (in terms of the output price) over marginal cost for the whole period was 10.3 per cent for the pvt-lg sector, 6.0 per cent for the small sector and 0.0 per cent for the public sector.[12] Hence, the monopoly correction makes no difference on average in the case of the public sector and TFP*(M) is not reported. For the pvt-lg sector, TFP*(M) varies between a low of 91 per cent and a high of 111 per cent of the corresponding TFP* index value whilst, for the small sector, the said variation was between 95 per cent and 116 per cent. The monopoly correction makes a clear difference in the measure of TFP for these two sectors; therefore, only TFP*(M) is reported for them.

In Table 4, TFP* (weighted) represents the weighted sum of TFP* for the public sector and TFP*(M) for the private sectors with weights being these sector's share in aggregate real value added. The table also incorporates the unweighted TFP* and the double- and single-deflated TFP indices (TFPDD and TFPSD) for aggregate manufacturing (these are from Rao 1996). It should be recalled that the weighted index is for manufacturing + repairs whereas the three unweighted indices are for manufacturing alone. The weight of the repairs industry, however, is too small to cloud comparisons of these indices. Figure 6 graphs these indices for aggregate manufacturing.

Table 5 reports semi-logarithmic trend growth rates for the productivity indices for the whole period as well as for two sub-periods (1973/74-1980/81 and 1981/82-1992/93, hereafter 'Period 1' and 'Period 2' respectively). This periodisation is adopted solely to check Ahluwalia's (1991) central conclusion that there was a break in the trend of manufacturing productivity around 1980-81 following reforms in industrial and trade policy.[13]

It should come as no surprise that the broad trends in the TFP* indices, for the sub-sectors and for manufacturing as a whole, follow the above-described trends in the partial productivity indicators. For the period as a whole, total factor productivity grew at an annual average rate of 2.3 per cent in the public sector, 2.2 per cent in the pvt-lg sector and 2.4 per cent in the small sector (though the growth coefficient for the small sector was not statistically significant). But there are important contrasts across the two periods that deserve to be noted. In Period 1, the respective growth rates were 3.7, 5.9 and as much as 10.0 per cent for the three sub-sectors. In Period 2, the *rankings were reversed* with the small and pvt-lg sectors registering annual rates of decline of 5.3 and 2.0 per cent respectively and the public sector recording -1.8 per cent growth per annum which was in fact not statistically significant. The basis for these contrasts can be located in the significant differences in trends noted earlier in terms of capital productivity and material intensity across the sectors. But caution is needed in taking these contrasts at face value in view of the use of a common output and input price indices for all sub-sectors. For example, it is conceivable that administrative price increases may have been large enough to produce significantly faster increases in public sector output prices compared with the private sectors output prices in which case productivity growth, by our measures, would be overstated for the public sector and, because public sector prices are part of the manufacturing WPI, understated for the private sectors.

The substantial deceleration in productivity growth observed for all three sectors is reversed with the single-deflation measure. Productivity growth accelerated from annual rates that were not significantly different from zero in period 1 to 2.2, 0.9 and 2.3 per cent for the public, pvt-lg and small sectors. It is also notable that the Period 2 ranking of the three Sectors is the opposite of that obtained from TFP*.[14] By contrast, TFPDD does conform with the chief result (based on TFP*) of a deceleration in productivity growth between the two Periods though the magnitude and in some cases the sign and significance of the growth rates are scarcely the same.

The weighted TFP* for manufacturing grew at 2.3 per cent per annum for the whole period (see Table 5), decelerating from 6.5 per cent in Period 1 to -2.8 per cent in Period 2. The corresponding numbers for the unweighted TFP* for manufacturing are 2.0, 5.5 and -2.2 per cent respectively. These growth rate differentials (also clearly visible in the gaps between the respective graphs for TFP*, weighted and unweighted, in Figure 6) are an index of aggregation bias when an aggregate production function is posited without suitably weighting inputs for efficiency (price and/or quality) differentials. But it is reassuring to note that the two indices do not conflict at least

TABLE A3. OUTPUT AND INPUTS
(Small Manufacturing, 1973-74 - 1992-93)

Year	Value of Output (Rs Lakh)	Net Value Added (Rs Lakh)	Depreciation (Rs Lakh)	Material Inputs (Rs Lakh)	Emoluments (Rs Lakh)	No of Employees	Working Capital (Rs Lakh, 1960 Repl Values)	Fixed Capital (Rs Lakh, 1960 Repl Values)	Productive Capital (Rs Lakh, 1960 Repl Values)
1973-74	447618	63084	9237	375297	29290	1314809	25368	150345	175713
1974-75	571164	79142	9704	482318	34381	1322275	25516	148364	173880
1975-76	637448	84348	12359	540741	40522	1463559	31536	158701	190237
1976-77	727920	102220	13909	611791	44566	1552276	31466	169543	201009
1977-78	859580	118596	16370	724614	53358	1696406	34078	189147	223225
1978-79	950787	125447	17365	807975	52515	1691495	38346	184568	222914
1979-80	1148591	154928	19043	974620	67832	1865867	42939	201449	244388
1980-81	1300599	167612	21335	1111652	80138	1757814	35325	211027	246352
1981-82	1520528	188614	26109	1305805	87782	1884161	38818	219224	258042
1982-83	1705944	210112	29459	1466373	114431	1931642	42770	238344	281114
1983-84	1839425	294422	45190	1499813	118641	1974748	51408	302527	353935
1984-85	2089849	286536	57627	1745686	127383	1891341	46841	288129	334970
1985-86	2604387	377002	59529	2167856	160324	2102759	79723	448922	528645
1986-87	2824642	387746	67857	2369039	170821	2076510	57442	427491	484933
1987-88	3387249	422231	106165	2858853	189386	2143476	62105	401806	463911
1988-89	4117650	540241	115177	3462232	217892	2176710	65549	419511	485060
1989-90	5063849	649334	131929	4282586	261293	2347926	67207	446887	514093
1990-91	5981003	765935	147692	5067376	291526	2313032	75878	460208	536086
1991-92	7079955	956658	150444	5972853	335877	2377419	87316	490827	578143
1992-93	8044823	1011121	174448	6859254	421028	2512252	99701	530514	630216

as regards the trend shifts in productivity between Period 1 and 2 are concerned.

For manufacturing as a whole, the contribution of productivity growth to value added growth was 38 per cent for the study period and, 61 per cent and -124 per cent respectively for Period 1 and Period 2. Productivity growth contributed a larger share of value added growth in the public than in the private sectors – the contributions being 46 per cent for the public, 37 per cent for the pvt-lg and 31 per cent for the small sector. Taken by themselves, these numbers look respectable by (conventionally measured) international standards. However, by the same token, the contrast between the two Periods makes the respective productivity growth rates exceptionally large (in absolute terms) by these same standards.

The differentials between TFP*, TFPDD and TFPSD are clearly noticeable in Figure 6. For most of the period, there is an interesting 'progression from TFPSD to TFPDD and then on to TFP* (unweighted) and TFP* (weighted) – each revision shifting the graph upward. But the biggest source of error is attributable to single-deflation relative to the correct procedure for deflation, the error produced by double deflation being substantially smaller in sign and magnitude. At least for the sample data, we may conclude that errors due to inappropriate aggregation are small relative to the errors due to incorrect deflation of value-added.[15] This is also a reason for reposing greater confidence in the general conclusion that productivity growth fell between the two periods than the contrary view that it rose. But 'greater confidence' should not be construed to mean 'beyond reasonable doubt': a measure of caution is warranted by the limitations of data, particularly the unavoidable reliance upon uniform price indices with a fixed base for outputs and inputs.

V
Growth Accounting as Supply-Side Economics

If we take the results of this paper and its predecessor at face value, we are left with a difficult problem of interpretation although the difficulty is by no means unique to this study.[16] Howsoever the periodisation be arranged, the exercise reveals a significant rate of decline in measured total factor productivity in the 1980s. From a neoclassical standpoint, TFPG must be viewed as a measure of supply-side productivity improvements. Besides technical progress, improvements in the quality of outputs or of inputs are certainly consistent with such a view. But when TFPG is negative, this implies a corresponding rate of technical regress. But in what sense can there be technical regress of such high order? Workers and engineers forgetting their skills or losing their knowledge at such a rate seems implausible if not absurd just as output quality deterioration over time is.

We single out three candidate variables by way of a general answer (without necessarily implying their applicability in the empirical instance studied). First, productivity may be lost on account of specific supply bottlenecks such as in infrastructure or imported inputs. Second, productivity may decline in the face of protracted conflict, at the subterranean level of the shop floor if not in overt forms, between labour and management. Third, the utilisation of labour and capital may suffer on account of the inability of producers to sell additional output due to demand constraints.

The supply-side oriented interpretation cannot encompass the last of these variables as there is no neoclassical conception of demand-constrained capacity utilisation. With perfect competition assumed to hold, the further assumption of full employment determines the real wage which then defines the optimal labour/capital and labour/output ratios. The relevant measure of 'capacity utilisation is then indexed by the labour/capital ratio (the intensity at or hours and shifts over which capital is worked) which, in this view, is already optimised by enterprises acting upon equilibrium market signals, in every period. As to the first (supply bottlenecks) and second (capital-labour conflict) variables noted above, both imply a state of market disequilibrium: bottlenecks will produce rents which distort measured factor shares relative to their imputed shares while conflicts signify non-technical perturbations in technology which impinge on both utilisation and factor market equilibrium. While capacity utilisation has often been used by neoclassical practitioners as a variable 'explaining' the variance in productivity growth, the underlying theoretical model is either inconsistent with a supply-side view (lacking as it does any notion of effective demand) or at least inconsistent with the equilibrium formulation within which productivity growth is measured and interpreted. If supply constraints (including those due to capital-labour conflict) are considered to have been influential, then, all productivity measures of the type considered in the present study must be viewed with suspicion if not discarded altogether.

However, there are non-neoclassical conceptions of both factor utilisation and of productivity growth proper (controlling for utilisation) that may help explain at least part of the 'residual' represented by TFPG. Consider capacity utilisation first. Factor utilisation may be influenced by the force of effective aggregate demand under conditions of unemployment. In the Indian context, effective demand facing the industrial sector originates only partly from within that sector; an important part of demand arises from the rural economy. Hence, agricultural performance may serve as a proxy (in part) for effective demand which may then be hypothesised to affect industrial TFPG positively. It goes without saying that, in this view, a positive relationship between TFP growth and industrial output growth is also to be expected.

Consider next productivity growth proper. An important part of it may be the result not of 'technical progress' in the conventional, neoclassical sense but of a process of increasing returns to scale at the level not of an enterprise, or even of a particular industry, but of an entire sector of the economy (such as manufacturing) or even of the whole economy. Such a process has been described and analysed from Adam Smith through Allyn Young to Nicholas Kaldor. Productivity gains in such a process involve external economies, particularly those flowing from the movement of knowledgeable workers across industries and from the density of inter-industry transactions. To the extent that such increasing returns have been important, TFP growth may be again expected to be positively related to output growth.

Support for these arguments is available from international evidence recently analysed by Singh (1995). Employing data on TFP growth and GDP growth for nine regions/nations over two periods (1960-73 and 1973-87), he finds a positive and statistically significant relationship between the change in the growth rate of productivity and the change in the growth rate of output between the two periods.[17] Singh concludes that the result is much more in accord with the non-neoclassical arguments of the type stated above than with the World Bank's analysis, based on the same data, which attributes the "almost universal fall in TFP growth in the recent period .. to policy mismanagement: low rates of technical progress caused by distortions, lack of competition, lack of integration with the world economy, etc" (p 7).

Singh's theoretical framework is decidedly non-neoclassical and favors Verdoorn's Law – a positive relationship, underpinned by both effective demand and increasing returns above the enterprise or industry level, between productivity and output growth. Though Goldar (1992) presents similar regressions without providing any (supply- or demand-side) prior hypotheses or consequent interpretations of the results obtained, his results too are instructive. He regresses TFP growth for a cross-section of

major manufacturing industries against three variables: power supply to industry, imported intermediate input availability and agricultural production. Although all coefficients were positive, only the coefficient on agricultural production was statistically significant. The elasticity of TFP growth with respect to the latter was 0.40 (more than five times as large as the other two elasticities) This result lends support to the argument made above that effective demand deriving from agriculture is an important influence on industrial productivity

Table 6 presents correlations between TFP growth and output growth (denoted QG), both as measured in this study. For the sub-sectors, TFP growth is sought to be related to both output growth in the sub-sector itself and output growth in aggregate manufacturing. Observe first that all of the correlations are positive but that, except for the public sector in Period 2, the correlations are not statistically significant for the sub-periods.[18] For both of the private sectors, the coefficients fall by large margins between the two periods whereas for the public sector, they rise Furthermore, the correlations for the small sector are substantially smaller than those for the public or pvt-lg sector, in all three periods considered.

When the correlations are considered for the entire 19-year period, the coefficients are positive and statistically significant for the public sector, the pvt-lg sector and aggregate manufacturing, i e, for all except the small sector The elasticity of productivity growth (obtained from the corresponding regressions) with respect to output growth in aggregate manufacturing is 5.1 for the pvt-lg sector, 5.7 for the public and 4.8 for aggregate manufacturing. The elasticities with respect to 'own' output growth are smaller – at 3 7 for the pvt-lg sector and 2.8 for the public sector – than the corresponding elasticities with respect to aggregate output growth. Three conclusions may be drawn from these relationships: (1) Verdoorn's Law holds for organised Indian manufacturing as a whole over the entire period; (2) the Verdoorn link is stronger for the public and pvt-lg sectors than for the small sector; and (3) the 'Law' apparently weakened between Period 1 and Period 2 for aggregate manufacturing and for the pvt-lg and small sectors but grew in strength for the public sector. These conclusions are at least suggestive of the positive if waning influence of effective demand[19] and external economies on India's industrial performance. They also indicate the need for more detailed research addressed to the determinants of sectoral and temporal variations in industrial productivity growth sorting these out among structural factors and those attributable to shifts in public policy.

Notes

1 This procedure was also followed by Balakrishnan and Pushpangadan (1994) and in our analysis of aggregate manufacturing productivity [Rao 1996].

2 We ignore the fact that the two-digit sub-sectors are themselves aggregates of heterogeneous industries

3 Goldar's estimation allows for a 2 per cent rate of discard of the capital stock. But the constancy of the discard rate suggests that this source of difference in procedure is unlikely to be the major one behind the difference in productivity index finally obtained

4 Vinod Vyasulu has pointed out to me that the 'small' sector identified in this study is more commonly referred to as the 'medium' sector by students of Indian industry.

5 Employment strength and capital employed are correlated but scarcely perfectly Employment was chosen purely as a matter of convenience to apply the capital criterion to time-series data will require adjustment of nominal cutoff criteria for the changing price level, a hazardous procedure that may generate further difficulties as the real value cutoffs do not have to coincide with the nominal cutoffs in the ASI.

6 Data for manufacturing net of repairs can indeed be isolated at the aggregate level, but not by size or ownership

7 The construction of the data base used here, including the input price index and the capital stock series, follows Balakrishnan and Pushpangadan (1994) and Rao (1996). Disaggregated data on depreciation were unavailable for earlier years; these were estimated through extrapolation of depreciation rates, by sector, which can be computed for later years.

8 The product wage is obtained by deflating mean emoluments of employees by the WPI for all manufacturing. It is a sufficient statistic to capture real wage relativities across the three sectors

9 Another complication that should be borne in mind is that there may be a tendency for owners' managerial earnings to be understated in the small sector the result of which would be to overstate measured profits. On the other hand, any tendency to conceal profits for tax evasion, if more pronounced in the small sector, will serve to understate profits.

10 This argument is developed in Rao (1994).

11 See Rao (1996) for an analysis of relative price trends during the study period.

12 Note that these markup rates, when reckoned relative to factor costs (i e, excluding material inputs), would be three or four times as large.

13 Actually, Ahluwalia identifies two distinct break years: her growth accounting-based analysis suggests 1980-81 as the turning point while her econometrically estimated production function exercise points to 1982-83. In point of fact, no substantively or statistically significant difference emerges from either choice. We have retained 1980-81 as the break year not only because this alternative is highlighted by Ahluwalia herself but also because that choice gives the maximum benefit of doubt to her turnaround hypothesis.

14 But TFPSD grew fastest in the public sector (1 9 per cent for the whole period) and slowest in the pvt-lg sector (0.6 per cent) when the whole period is considered

15 The reader should also note that our approach to disaggregation remains partial – other sources of aggregation bias such as those due to heterogeneity within the three sub-sectors identified in this study are not controlled for

16 Negative productivity growth rates have been reported in several previous studies of Indian manufacturing, including Ahluwalia's

17 It is noteworthy that the only country/region (out of ten) in Singh's sample which registered a rise in the rate of growth of TFP between the two periods was south Asia.

18 Period 1 has only 5 degrees of freedom so that the critical value of the correlation coefficient at the 5 per cent level is 0 754

19 For the sceptic, it would be instructive to note that the recession induced by the SAP stabilisation shows up clearly in the steep fall in all TFP indices in the 1991-93 period. The influence of demand factors need not be ephemeral or confined to 'abnormal' years however. Factor accumulation, not just current utilisation, is influenced by the strength of effective demand. Not only does fast accumulation raise output growth but the latter, in turn, can cause productivity growth to rise via the supply-side of Verdoorn's Law

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Anandibai Joshee

Retrieving a Fragmented Feminist Image

Meera Kosambi

Anandibai Joshee was the first Maharashtrian woman to leave Indian shores in the latter half of the 19th century for higher studies abroad to become the first Indian woman to qualify as a medical doctor. The Maharashtrian psyche remains captivated by the image of Anandibai as a submissive and obedient girl-wife who fulfilled her husband's visionary ambition for her. However, the series of images sketched by Anandibai's own words produce a self-portrait in which the submissive wife coexists with an intelligent woman dispassionately perceptive of herself and her society. This essay attempts to reach the 'real' Anandibai and reclaim her fragmented feminism.

WOMEN's voices from the past, sometimes cogent and sometimes hesitant in articulating the feminine experience and the feminist protest, make it possible for us to contest the received history of the late 19th century Maharashtra. This history has consistently represented the reformist men as the sole crusaders against gender injustice in orthodox Hindu society, successful in wresting emancipatory privileges for the benefit of women, posited as passive, mute objects who participated neither in the protest nor in the struggle. The discrepancy between the available evidence and the conclusion which disregards it is a matter of the hitherto largely uncharted politics of gender reform [Kosambi 1995b]. As part of the same politics, the feminist voices themselves have been effectively stilled and obscured by official history as well as mainstream society, through a variety of strategies - by simply ignoring their existence, as in the case of Tarabai Shinde's booklet on women and men,[1] and Rakhmabai's published letters on child marriage and enforced widowhood;[2] or by totally marginalising extraordinary women and their contribution, as in the case of Pandita Ramabai;[3] or by co-opting a partial feminist into the pantheon of traditional female role models, as in the case of Anandibai Joshee. Explored here is this last case – an exemplar of the subversive process which transmuted an intelligent and independent woman and a potential threat to convention into a popular incarnation of a traditional husband-worshipping wife, shorn of her individual achievements.

Anandibai Joshee's life (1865-1887) was the stuff that legends are made of. The child of an orthodox brahmin family, she was the first – and at the age of 18, also the youngest – Maharashtrian woman to leave the Indian shores in 1883 for higher studies abroad.[4] She was also the first Indian woman to qualify as a medical doctor, having received an American medical degree in 1886, before completing 21 years, during an era which forbade even simple vernacular literacy to women. Her choice of a medical career, though made partly with her husband's help and support, was a personal commitment aimed at serving her fellow women, which she defended publicly and sustained through perseverance against heavy odds. Hidden by these foregrounded events was her less publicised personal life, itself a continuous struggle on many fronts, which ended abruptly a little short of her 22 birthdays.[5]

If Anandibai captured the popular imagination during her lifetime (and even a hundred years after her death), it was as a young woman at the very threshold of life, who ventured into the unknown beyond the seas at the behest of her loved and revered reformer husband; who mastered the demanding vocation of a physician in order to heal her suffering and neglected sisters; and who died prematurely in her prime, sacrificed at the altar of these reformist aspirations – thereby lending herself all too easily to the role of a tragi-romantic heroine. Thus the Maharashtrian psyche remains captivated by the image of Anandibai Joshee as a submissive and obedient girl-wife who fulfilled her husband's visionary ambition for her and who died even as she attained the glorious destiny he had outlined for her

However, the series of images sketched by Anandibai's own words jigsaw into a self-portrait – a somewhat fragmentary, sometimes contradictory, but always a distinct, identifiable and cohesive self-portrait – in which the submissive, obedient wife coexists with an intelligent young woman who is dispassionately perceptive of herself and her society, independent in her reasoning about contemporary gender reform issues, fearless in articulating the obstacles to women's education in India, and firmly anchored to an Indian cultural and nationalistic identity. Through this fragmentary self-portrait made up of a multiplicity of images, we try to reach the 'real' Anandibai and reclaim her fragmented feminism.

This essay aims to contribute to the rewarding exercise of reconstructing women's 'doubly refracted' history,[6] and situates Anandibai within the emergent feminism in 19th century Maharashtra.[7] After sketching the contours of Anandibai's life, the essay analyses the internal tensions and fragmentation in her views on a variety of gender issues, contextualises her within the contemporary feminist thought, and assesses the impact of her public stance on the women's cause in Maharashtra.[8] It concludes by contrasting Anandibai's 'retrieved' image with her popular image, and underscores the need to free real-life women from a fictionalised portraiture, as an essential part of the feminist agenda.

I
A Life-Sketch

The initially conventional parameters of the life of Anandibai Joshee, nee Yamuna Joshi, gave little indication of her future trials, tribulations and triumphs.[9] Born on March 30, 1865 in an impoverished aristocratic Brahmin family of Kalyan near Bombay, Yamuna was one of the four children who survived out of the total of nine born to Ganpatrao Joshi and his second wife Gangabai. The proverbial unwanted daughter suffered an attack of smallpox in childhood which left faint marks on her face, doing little to improve her plain wheat-complexioned looks. However, thanks to the unusual pampering by her maternal grandmother who stayed with the family, Yamuna grew up sturdy and even earned the nickname of 'wrestler' after defeating a somewhat older male cousin in a friendly fight.

Prompted by vaguely progressive ideas which penetrated through the family's otherwise orthodox lifestyle, Ganpatrao enrolled Yamuna in the school held in a part of the family mansion, where she picked up rudimentary literacy, though preferring to play truant and spend her time in games with the neighbourhood girls. The indulgent father boasted about Yamuna's ability to read, to his much shocked visitors who shared the mainstream society's opposition to women's education.

At the same time, in a reversal of the usual parental roles, Yamuna's mother treated her

with a harshness which far exceeded the conventional maternal discipline through the accepted methods of verbal and physical chastisement. Yamuna recalled in later years:

> My mother never spoke to me affectionately. When she punished me, she used not just a small rope or thong, but always stones, sticks and live charcoal. Fortunately, my body does not bear any scars, and her severe beatings did not leave me maimed, crippled or deformed. By the grace of God, my limbs survived intact! But oh! the sheer agony of those memories! I don't say this as a result of the emotional distancing which follows the passage of childhood. Truly, she never understood the duties of a mother, nor did I experience the love which a child naturally feels for its mother. This memory hurts me a great deal. A child which harbours fear for its parents cannot possibly feel affection for them, and a child which feels love for its parents does not fear them. Unfortunate indeed is the child which has missed a happy childhood. Because I understand the problem, I feel sure that I also possess the solution. If I ever have a child, I will teach people by my own example how children should be brought up [Kanitkar 1912:12-13*].[10]

That little Yamuna looked old for her age was a source of acute anxiety to her parents who subscribed to the contemporary norm of mandatory pre-pubertal marriage for girls. The desperate Ganpatrao, additionally handicapped by his inability to afford a dowry, was greatly relieved at his family priest's discovery of Gopalrao Joshee as a potential match. Gopalrao, a 27-year old widower, was postmaster at the nearby town of Thane where he lived alone while his parental family lived at Nashik. Known to be an eccentric, with reformist ideas (which he aspired unsuccessfully to implement by marrying a widow), he finally agreed to marry Yamuna after extracting an unwilling promise that he be allowed to educate her after marriage. Hasty preparations were made for the wedding, when Gopalrao gave the Joshis their first taste of his eccentricity by not appearing for the event. Frantic negotiations were undertaken afresh, and the wedding was finally consecrated a few days later, on March 31, 1874.

The customary change of personal name turned Yamuna Ganpatrao Joshi into Anandibai Gopalrao Joshee. A couple of years later, the immediate post-pubertal consummation of marriage was performed with all ceremony demanded by orthodox custom, obviously without protest from the 'progressive' Gopalrao. Anandibai's experience of motherhood at the age of 12, rendered additionally painful by the loss of her infant son, was followed by an imperceptible but steady decline in her health and her inability to bear more children. Such long-lasting physiological damage, as a typical result of early sexual intercourse and early pregnancy, was frequently discussed during the Age of Consent controversy of the late 1880s [Kosambi 1991], but seems not to have been identified in Anandibai's case.

Gopalrao's avowed reformist aim of educating his wife[11] seemed sure of fulfilment through his bright and receptive child-wife's rapid progress in Marathi, and rudimentary Sanskrit and English. He ensured freedom from her family's possible interference and quietude for studies, through a transfer to Alibag on the Konkan coast. But he alienated the conventional small town by not only educating his wife at home, thereby transgressing the rules of sex-segregation in daytime domestic activities,[12] but also taking her for evening walks – behaviour hardly tolerated even in large cities.

Tired of this social isolation and even harassment, and attracted by better educational opportunities for his wife, Gopalrao obtained further transfers, first to Bombay and then to Kolhapur. However, Anandibai's attendance at the highly regarded missionary schools at both the places remained problematic in the face of social pressure, and lack of special encouragement expected from the missionaries for this venture. Gopalrao's vicarious personal ambition, coupled with his acquaintance with American missionaries, ignited the radical plan of taking Anandibai to America for higher studies. He appealed for help to the Rev Wilder of Princeton, New Jersey, in September 1878, projecting himself as a progressive brahmin struggling against caste persecution to educate his wife, and enlightened enough to value the message of Christ. The covering letter by Goheen of the American Mission in Kolhapur sketched an enthusiastic scenario of the converted Brahmin couple as valuable propagators of Christianity. The far less sanguine Wilder merely advised Gopalrao to stay on in India and confess Christ immediately. Severely disappointed, Gopalrao sought yet another transfer, this time to Bhuj in the Gujarat region of the Bombay Presidency.

An entirely unexpected global connection developed at this juncture. In the spring of 1880, B F Carpenter of Roselle, New Jersey, came across this correspondence published earlier in the *Missionary Review* of Princeton; and, overcoming her initial hesitation, wrote to offer Anandibai her whole hearted support. The letter heralded a regular and copious correspondence leading to an unusual bonding between the 15-year old Anandibai and the American lady old enough to be her mother, whom she viewed in the light of an affectionate aunt. In a letter dated January 20, 1881, Anandibai wrote:

> I already wish and feel that I should call you my aunt. There is a saying among us, "it does not matter much if a mother dies, but let not an aunt die". This expression will show you in what respect and estimation a maternal aunt is held among us. If you allow me, I wish to look upon you as such.

Carpenter's prompt consent cemented the surrogate blood relationship.[13]

With the American avenue blocked, Gopalrao's ambitions for his wife turned towards making her the first Maharashtrian woman to take up paid government employment; and in April 1881 he obtained a transfer to the Bengal Presidency which offered women jobs in the postal department.

Life in Calcutta came as a culture shock to the Joshees. Though in the vanguard of social reform, the Bengali society was strictly sex-segregated, with "'zenana' too rigidly observed", as Anandibai commented to Carpenter in June 1881. During their evening walks, the couple were rudely stared at and laughed at by both Indians and Europeans, and even harassed by a policeman once, so unusual was the sight. As further aggravation, the climate affected the health of both, and Anandibai took to her bed for several days. The crowning misery came when Gopalrao lost an important dispatch from the Viceroy to the Governor of Bengal, for which he was arrested and even temporarily suspended from his duties.[14] However, life finally resumed some normalcy, a rudimentary social network was established (to include mainly the few Maharashtrian brahmins in Calcutta), and contact was made with the Brahmo Samaj, and also the Theosophical Society of which both became members.

The socio-cultural link with Maharashtra was nurtured throughout this time and during Gopalrao's subsequent transfer to Barrackpore and then to Serampore in 1882. Marathi newspapers were read regularly, and in April 1882, the *Kesari* of Pune published Anandibai's letter and verses mourning the untimely death of the well known nationalistic but anti-reform writer Vishnushastri Chiplunkar [cited in Kanitkar 1912:326-27]. It was also during this stay at Serampore that Anandibai made an offer of hospitality to the prematurely widowed Pandita Ramabai, then living in Bengal [Dall 1888:vi-vii].

In the meanwhile, plans for Anandibai's future had crystallised: she was to enrol at an American medical college with Carpenter's help. In fact, she was to sail to America alone, with suitable female company, and Gopalrao, prevented by financial constraints from accompanying her, was to join her later. The wildfire news whipped up a storm of protest which Anandibai decided to still through a well-received and well-publicised public address at the Serampore College in February 1883, on the subject of "My future visit in America and public inquiries regarding it."

Finally, on April 7, 1883, the 18-year old Anandibai sailed from Calcutta under the nominal escort of American missionary women, and finally met her American aunt. After spending the summer with her at Roselle, Anandibai joined the Women's Medical College of Pennsylvania (currently the co-educational Medical College of Pennsylvania) at Philadelphia in October 1883. The Dean, Rachel Bodley, warmly welcomed the lonely young Indian woman both to the College and to her home for the next three years during which Anandibai completed the full course of studies. However, illness continued to dog Anandibai even here. The combined effect of the cold climate, the burning of anthracite coal in the heaters, and the rigours of the demanding medical studies took a heavy toll, and Anandibai graduated from the College already a victim of consumption. On March 11, 1886 Anandibai, now almost 21-year old, received her medical degree amidst an ovation at a splendid ceremony at which Pandita Ramabai was a guest of honour [15]

Also present at the graduation ceremony was Gopalrao who had resigned his job in 1884 and travelled cheaply to the US (via Burma, Siam and China), working his way as a labourer. Immediately on arrival at San Francisco, he acquired dubious publicity through anti-American speeches which he continued to give at all the stops on his way to Roselle, while Anandibai hid her embarrassment as diplomatically as her friends – who had extended financial help to both – hid their resentment.

Compelled by failing health to abandon her initial plan of spending another year in the US to gain experience of medical practice, Anandibai accepted the fortunate offer of a newly created post for a lady doctor in the princely state of Kolhapur in the Bombay Presidency. Gopalrao reluctantly gave up his plan to travel further within the US and also to visit England, and accompanied his wife to India on October 8, 1886, reaching Bombay five weeks later.

The Joshees were warmly welcomed by the people and the press in Maharashtra – as much for Anandibai's success in education as for her conformance to conventional dress and diet, and for Gopalrao's nobility in sending his wife abroad for medical education. However, it soon became apparent that Anandibai's rapidly deteriorating health responded to the treatment of neither western doctors nor Indian Ayurvedic vaidyas consulted at Bombay and at Pune where she was shifted in December 1886.

On February 29, 1887, Anandibai breathed her last in a house of her mother's relatives – the same house where she was born less than 22 years earlier. She was cremated at Pune, but her ashes were sent to Carpenter and are buried in her family lot in the Poughkeepsie Rural Cemetery, New York. The black stone grave marker bearing the inscription: "Dr Anandabai Joshee, MD, 1865-1887, First Brahmin Woman to Leave India to Obtain an Education"[16] keeps her memory alive in an alien land which became her home for the three fateful years which changed her life as it did the subsequent social history of Maharashtra.

After Anandibai's death, Gopalrao did not remarry, and spent the rest of his life mostly at Nashik and Pune, occasionally gaining notoriety for his well-publicised activities. The first of these, with the greatest nuisance value, was the tea party he helped to organise at the Panch Houd Mission at Pune in October 1890, to which about 40 prominent citizens (including BG Tilak and MG Ranade) were invited. Although only some of the guests drank tea served by Christians, Gopalrao had the entire list published in a newspaper, with a demand that they be required to perform the requisite expiation or be excommunicated for having lost caste (*Mahratta*, July 5, 1891:4). The case dragged on for over a year and caused a great deal of harassment, without serving its ostensible purpose of exposing the reformers' hypocrisy. The second incident was a marriage of two donkeys perfomed in December 1890, supposedly as a comment on child marriages performed by so-called reformers. The third incident involved Gopalrao's conversion to Christianity at the end of June 1891, though he retained his sacred thread and the mark on his forehead, contending that "although he has accepted Christ as his Saviour, he does not cease to be a Hindu" (*Mahratta*, July 5, 1891:3): after about a month, he returned formally to the Hindu fold. In 1892 he made a short and unsuccessful trip to England as a trader in Indian handicrafts, and published a Marathi travel description, with a rather unbalanced commentary. In September 1912, he died at Nashik, penniless, without family or friends [Vaidya 1985]. His sporadic notoriety notwithstanding, he left no permanent mark on the social scene of Maharashtra, and remains best-known as Anandibai's husband.[17]

II
A Fragmented Feminism

Through wide-ranging temporal and cross-cultural shifts, three elements seem to emerge as pivotal to the myriad connotations of feminism: the belief that women qua women are subordinated to and oppressed by men, the ideal of gender equality, and action (either private or public) towards the achievement of this ideal [Kramarae and Treichler 1989:158-61]. The same themes surface in the "feminist consciousness" which is said to have evolved historically from a perception of the distorted way of presenting women, to a questioning of the (patriarchal) tradition, to the final reaching out to other women in search of sisterhood [Lerner 1992: xxi-xxii]; and also in the "feminist perspective" which is an attempt "to describe women's oppression, to explain its causes and consequences, and to prescribe strategies for women's liberation" [Tong 1992:1].

The feminism which erupted spasmodically on the social scene of Maharashtra in the early 1880s manifested most of these crucial elements, while stopping short of the notion of forming a sisterhood or engaging in collective action (except for Pandita Ramabai's Arya Mahila Samaj set up in 1882 as a definite attempt in this direction). This was hardly surprising, given the severe constraints on women's gatherings, except for religious and family festivities. Nor did the isolated feminist voices which were raised from time to time form a discourse, in spite of personal networks and an exchange of letters among some of them.[18] What is significant, however, is the fact that the women's protests were qualitatively different from the contemporary male reformist discourse (conducted within a partially liberal but firmly patriarchal framework), and questioned many aspects of the patriarchal value system and the social institutions which it undergirded.

One of the earliest challenges came from Tarabai Shinde in her militant Marathi booklet *Stree-Purusha Tulana* published in early 1882, attacking the male double standards of morality, and the male prejudices against and abuse of women. In June 1882 was published Pandita Ramabai's Marathi *Stree-Dharma Neeti* – an exhortation to women (from a male reformer's perspective) to cultivate self-reliance, and obtain education and skills in household duties and child care – whose generally anti-feminist tone was punctuated by brief but strongly worded protests against male hypocrisy and androcentric Hindu scriptures [Kosambi 1995a]. It was during her highly publicised testimony before the Hunter Commission on Education in September 1882 at Pune that Ramabai made a spirited stand for women's education, including medical education, and for the need to appoint female teachers and inspectresses for girls' schools because of the male jealousy and tendency to obstruct women's education [Kosambi 1995a]. In 1885 appeared Rakhmabai's letters to *The Times of India* under the pen-name of 'A Hindu Lady', in which she attacked the custom of child marriage for exposing the girl-bride to emotional harassment and physical violence, while simultaneously depriving her of education and the chance of personality development; and also detailed the variety of oppression experienced by widows in different age-groups; ending with

reformist recommendations [cited in Varde 1991:190-208]

The extent of Anandibai's familiarity with any of these writings remains unknown. Although away in Bengal and later in America throughout these years, she did keep in touch with the socio-cultural developments in Maharashtra through Indian newspapers which reported and commented on many of these events and related debates. It must be remembered, however, that Pandita Ramabai's *The High-Caste Hindu Woman*, almost an Indian feminist manifesto, published in the US in 1887, post-dated Anandibai's death by a few months.

This chronology assumes significance here because many of Anandibai's comments cited below date from 1880-81 when she was 15-16 years old – younger than Rakhmabai who was 19 at the time of writing her 'Hindu Lady' letters, and then Pandita Ramabai who was 24 when she made her meteoric appearance in Maharashtra in 1882. That Anandibai was at all able to arrive independently at her views on what would now be called feminist issues, at that relatively young age and in the absence of an ongoing feminist discourse, is remarkable. Her young age could be considered a significant factor in explaining the occasional hesitation apparent in her views, although she lived in an era when emotional maturity came early, as did family responsibilities, and when a 15-year old girl was regarded as a grown woman, often a mother (as Anandibai herself would have been). Further, there is no indication of a noticeable change in her views as she grew older and was exposed to a substantially different culture.

The problems of presenting a fair and just interpretation of Anandibai's positions are obvious: the paucity of material and the resultant danger of reading too much into a chance remark; the inevitably heavy reliance on private correspondence not intended for the public gaze[19] – not even for the biographer's unwillingly inquisitive gaze – and therefore not formulated as well-reasoned statements, although she obviously put a lot of thought into her various discussions with Carpenter; and the long interval between successive segments of a discussion (as a letter took about five weeks to reach, even an immediate reply involved a delay of ten weeks). Equally importantly, Anandibai was struggling to express complex ideas in a foreign language which she was still in the process of mastering, and doing so in a way which would give a stranger a fair picture of unfamiliar and much criticised Indian customs.

The broad gender-related foci of Anandibai's privately expressed views and public statements were: women's subordinate position in marriage, family, and society; the custom of child marriage; the neglect of women's health; the need for training women doctors to treat women patients; and the obstacles to women's general education as well as professional medical education. These views are conspicuously moulded by her strong nationalism and loyalty to the Hindu culture.

Her universalised personal experience of asymmetrical gender relations within the typical Hindu marriage were unequivocally expressed in the 37-year old Anandibai's letter (dated about 1884) from America to her 37-year old husband:

> It is not at all my intention to distress your dear heart or to cause a rift in our love by raking up old memories. It is very difficult to decide whether your treatment of me was good or bad If you ask me, I would answer that it was both. It seems to have been right in view of its ultimate goal; but, in all fairness, one is compelled to admit that it was wrong, considering its possible effects on a child's mind. Hitting me with broken pieces of wood at the tender age of ten, flinging chairs and books at me and threatening to leave me when I was 12, and inflicting other strange punishments on me when I was 14 – all these were too severe for the age, body, and mind at each respective stage In childhood the mind is immature and the body undeveloped. And you know how I acted on these occasions If I had left you at that immature age, as you kept on suggesting, what would have happened? I would have been lost (And any number of girls have left their homes because of harassment from mothers-in-law and husbands.) I did not do so because I was afraid that my ill-considered behaviour would tarnish my father's honour . And I requested you not to spare me, but to kill me. In our society, for centuries there has been no legal restraint between husbands and wives; and if it exists, it works against women! Such being the case, I had no recourse but to allow you to hit me with chairs and bear it with equanimity. A Hindu woman has no right to utter a word or to advise her husband. On the contrary, she has a right to allow her husband to do what he wishes and to keep quiet. Every Hindu husband can, with advantage, learn patience from his wife. (I do understand that without you I would never have become what I am now, and I am eternally grateful to you; but you cannot deny that I was always calm.) I was born to endure all that. But I am quite content now [Kanitkar 1912:188-89*].

This clear indictment of Gopalrao's verbal and physical (and perhaps also sexual) violence and autocratic behaviour as well as her admission of her own helplessness as a Hindu wife, are framed within the socio-legal norms which sanctioned both. Here the paradox surfaces again. The extract also underscores the fact that Gopalrao's one mitigating 'virtue', that of providing his wife with basic education and with the opportunity to go abroad for higher studies, was so rare at the time as to compensate for everything else. As Anandibai wrote to Carpenter from Bhuj on November 15, 1880:

> I do not expect much encouragement from the other members of my family. They are, properly speaking, orthodox to the letter, and cannot be expected to sympathise with me. But as my husband is so much in favour of ... [giving women] emancipation, no one dares turn his face against me

Anandibai's views on gender relations and her own awareness of their complexity (and possible contradictions) become clearer in another letter to Carpenter [Bhuj, December 15, 1880]:

> [W]hen I ponder over the subject of the connection between man and woman, I generally side with the so-called orthodox ideas. *So long as woman is not on equal terms with man*, it is better for her to be under certain social restrictions, such as "not to marry again", "To be subservient to man", "To look upon her husband as God" These are the enjoinments of our Shastras On the other hand, when I think over the sufferings to which woman is subjected in all ages and at all times, I grow impatient to see the western light dawn upon us as the harbinger of emancipation and future good. Here I feel my inability to express myself as fully as I think. I am led to believe that man and woman should be self-protecting and that one should not depend upon the other for maintenance and other necessaries of life. Then and only then, all family discords and social humiliation will cease I am very sorry to see that there are many ladies among Europeans in India who are educated and accomplished for the purpose of marriage. Alas! how mischievous it is for a lady to adorn and change dress every hour in order to allure bachelors (emphasis added).

The line of argument here develops from a pragmatism (which appears like anti-feminism), to a belief in ultimate gender equality through western influence and individual self-reliance, and further to a nationalistic expose of the obverse side of European society. To begin with, the woman's subservient role as a husband-worshipping wife, being an imperative of the firmly entrenched patriarchy in Hindu society, is best observed through customs which reduce or eliminate her psychological tensions and conflicts. In short, women, handicapped with a lack of options, should consent to their own subordination. However, as these customs did entail a heavy cost to women, it was hoped that patriarchy itself would be challenged by the spread of western civilisation, with its liberal value system and institutions, thus emancipating women and relieving their suffering. Ultimately, the relationship of dependence and dominance

should be done away with altogether; in fact, gender equality would become a distinct possibility if its precondition, self-reliance, was realised. In the meanwhile, it was unfortunate that while Indian women were hankering after the potentially emancipatory gift of western education, European women were frittering it away by short-sightedly preferring to remain within the bondage of marriage. By implication, European society was not as advanced or as superior to Indian society as was claimed.

In her above-cited letter of November 15, 1880, Anandibai also makes a somewhat oblique and sarcastic reference to the universal son preference in Indian families:

> We have no polygamy to speak of. Our people, if they at all take more than one wife, marry for the sake of sons if they do not have any by first or second wife. So you see how fond we are of sons socially and religiously The Heavens are open to the man who has a son, but not otherwise

Women's social inferiority translated into the general neglect of their needs, regarding which Anandibai says, in one of her earliest letters to Carpenter [Bhuj, July 19, 1880)]

> We have the same dress for all the seasons We never put on warm clothes as it is considered indecent, nor do we wear shoes or boots as we seldom go outdoors. In short, all these luxuries are for men, who feel cold, warm and autumn [weather] and not for women who are supposed to be impervious to all these changes of climate Should we not envy you then?

The custom of child marriage, increasingly challenged in India and already under attack in the west, drew a somewhat vacillatory response from Anandibai. Basically, it seemed to be a dilemma of societal wisdom which sanctioned the practice, as against lived experience which protested against it – a dilemma further complicated by her unwillingness to condemn an Indian custom to a westerner. In her letter to Carpenter [Bhuj, August 23, 1880], she resolved the dilemma by insisting, first, that all marriage systems – Indian and western – were faulty, and secondly that their alleged role in causing women's health problems was doubtful as even unmarried women had poor health:

> I, of late, have been ill with something or the other. In higher classes women generally are very weak in India. I ascribe the cause to the custom of early marriage prevailing in all India but as you complain of the same I think there is some wrong in the marriage system.

The discussion on the effects of child marriage was long drawn out, and Anandibai was almost aggressive in her insistence that women's health problems arose not from child marriage alone, but from the institution of marriage itself, or from independent causes which affected even unmarried women. Almost a year later she wrote [Kalyan, March 1881]:

> Early marriage is no doubt a bane. When we deviate from the laws of nature, we must suffer the consequences. The practice of early marriage is not prevalent in many countries and yet the women there often are weak and ill-constituted as we are. I know of one lady (who was a spinster) who was always complaining of some thing or the other and never appeared in good health. So there are many European ladies in India, old and young, whose faces are pale and gloomy. There is no bloom on their countenances. I do not know the cause. If it is early marriage, as many of us suppose, I shall feel obliged if you will kindly account for the same condition perceptible in all civilised countries[20] in which there is no such thing as early marriage. Early marriage will no doubt be one of the causes which lead to this havoc, and destruction of life. I admit that the condition of Indian women is miserable and deplorable,... [But it would be undesirable] if we try to destroy all the old institutions as pernicious without having some thing better to substitute for them. The European mode of life and delicacy of manners and customs are not... [worthy of appreciation] as they appear on the very face, are expensive and not within the reach of the masses Anything that cannot be enjoyed by the masses must be bad. I however hope that you will kindly enlighten me on the subject I have so rudely and without regard to logic or reasoning handled above My defence of our present customs and manners will at least show you how ignorant we are and how prejudiced are our opinions against anything that is now prevalent. You say that Nature has designed us to mate at an early age and therefore infer that we must be earlier married but not before puberty.. [B]ut it is neither Nature nor religion to blame for introducing early marriage. There must be something else which I leave it to you to solve.

Surprisingly, Carpenter seems to have supported early though not pre-pubertal marriage, and possibly imagined that Hindu child marriages were consummated before puberty.

Somewhat abruptly, Anandibai's vacillation ended in her very next letter (Calcutta, April 1881) which made an explicit and radical statement endorsing British legislation for introducing social reform:

> We have many societies for the prevention of early marriages, but they cannot exercise a powerful influence over the irresistible tendencies of the generality of people. Almost all the rich and influential people are orthodox to the letter, and cannot be prevailed upon to put a stop to heinous customs and manners unless the strong ruling force interferes. The custom of 'suttee' has been forcibly abolished and the early marriage requires a similarly deadly blow before it can give way.

It is only against this background that one can appreciate the nationalistic compulsions in Anandibai's public defence of the custom of child marriage at a meeting of American missionary women in the spring of 1884. Her American friends, unaware of her private misgivings, saw this as an inevitable result of her social conditioning: Dean Bodley, for example, sought to dispel "the feelings of disappointment and regret engendered that April afternoon" by stressing "how absolutely impossible it was for a High-caste Hindu wife to speak otherwise" [Bodley 1981:ii-iii].

A deep concern for women's health and an urgently felt need for women doctors underpinned Anandibai's career decision, as she eloquently conveyed to Carpenter (Bhuj, November 1, 1880):

> I am late this time by 15 days to mail this letter. It is on account of my serious illness, which confined me to bed for nearly 3 weeks. This sickness confirms me in my desire to study medicine. Though my sickness was not of a serious nature, yet I was at one time so much affected that I had passed some days and nights without the least relief until we had recourse to professional medical advice and treatment. As a rule we Indian women suffer from innumerable trifling diseases, unnoticed till they grow serious The internal diseases to which women are naturally liable are never known to anybody except the sufferers. It is thought indecent to let them go to the knowledge of the other sex, much more [so to be] examined by male doctors. You may therefore imagine the mortality among Indian women. If I make no exaggeration, fifty percent die in the prime of their youth of diseases arising partly through ignorance and loathsomeness to communicate of the parties concerned, and partly through carelessness on the part of their guardians or husbands. It is not a calamity if a father loses a daughter or two as he is thereby spared much trouble and embarrassment to which he is exposed by *abominable customs and manners* (emphasis added).

In articulating this particular universalised personal experience of the gynaecological and other health problems of women, Anandibai made no distinction between private and public expression, as seen from her public address at Serampore:

> I go to America because I wish to study medicine. I now address the ladies present here, who will be the better judges of the importance of medical assistance in India. I never consider this subject without being surprised that none of those societies so laudably established in India for the promotion of sciences and female education have ever thought of sending one of their female members into the most civilised parts

of the world to procure thorough medical knowledge in order to open here a college for the instruction of women in medicine There is probably no country so barbarous as India that would not disclose all her wants and try to stand on her own feet The want of female physicians in India is keenly felt in every quarter Ladies both European and Native are naturally averse to expose themselves in cases of emergency to treatment by doctors of the other sex There are some female doctors in India from Europe and America, who being foreigners and different in manners, customs and language, have not been of such use to our women as they might As it is very natural that Hindu ladies who love their own country and people should not feel at home with the natives of other countries, we Indian women absolutely derive no benefit from these foreign ladies. They indeed have the appearance of supplying our need, but the appearance is delusive In my humble opinion there is a growing need for Hindu lady doctors in India, and I volunteer to qualify myself for one [cited in Dall 1888:83-84]

In the early 1880s, before the introduction of the Dufferin scheme,[21] medical education was practically impossible for women to obtain in India; where the opportunity existed in theory, it was effectively negated in practice by the male jealousy and hostility towards women's professional education. Even ordinary education was fraught with difficulties because of the vocal social opposition to Hindu women's school attendance, as Anandibai described vividly to her audience at Serampore:

> I do not mean that there are no means [for a woman to study in India], but the difficulties are many and great. There is one college at Madras, and midwifery classes are opened in all the presidencies; but the education imparted is defective and not sufficient, as the instructors who teach the classes are conservative, and to some extent jealous [22] I do not find fault with them. That is the characteristic of the male sex. We must put up with this inconvenience until we have a class of educated ladies to relieve these men
>
> I am neither a Christian nor a Brahmo. To continue to live as a Hindu and go to school in any part of India is very difficult A convert who wears an English dress is not so much stared at Native Christian ladies are free from the opposition or public scandal which Hindu ladies like myself have to meet within and without the zenana. If I go alone by train or in the street some people come near to stare and ask impertinent questions to annoy me Example is better than precept. Some few years ago, when I was in Bombay, I used to go to school. When people saw me going with books in my hands, they had the goodness to put their heads out of the window just to have a look at me. Some stopped their carriages for the purpose. Others walking in the streets stood laughing, and crying out [derisive remarks] so that I could hear [them]...
>
> Passers-by, whenever they saw me going, gathered round me. Some of them made fun and were convulsed with laughter. Others, sitting respectably in their verandahs, made ridiculous remarks and did not feel ashamed to throw pebbles at me. The shopkeepers and vendors spat at the sight of me, and made gestures too indecent to describe. I leave it to you to imagine what was my condition at such a time, and how I could gladly have burst through the crowd to make my home nearer! [cited in Dall 1888:84-86].

This social resistance was aimed not only at the fact of a woman encroaching upon the field of education long treated as a male preserve, but also at her attempting to cross the domestic threshold to enter the public sphere, as Anandibai was quick to point out:

> Yet the boldness of my Bengali brethren cannot be exceeded, and is still more serious to contemplate than the instances I have given from Bombay Surely it deserves pity! If I go to take a walk on the strand, Englishmen are not so bold as to look at me. Even the soldiers are never troublesome, but the Babus lay bare their levity by making fun of everything. "Who are you?" "What caste do you belong to?" "Whence do you come?" "Where do you go?" are, in my opinion, questions that should not be asked by strangers There are some educated native Christians here in Serampore who are suspicious; they are still wondering whether I am married or a widow, a woman of bad character or excommunicated! Dear audience, does it become my native and Christian brethren to be so uncharitable? Certainly not I place these unpleasant things before you, that those who have never thought of the difficulties may see that I am not going to America through any whim or caprice [cited in Dall 1888:86-87].

The society which denied women the opportunity to study and practise western medicine presumably excluded them also from the traditional Ayurvedic medicine monopolised by conservative Brahmin men. However, Anandibai's staunch nationalism prompted her to retrieve ancient Hindu knowledge, as she declared to Carpenter (November 15, 1880):

> The Europeans are under the impression that there is nothing worth knowing in Hindu scriptures and I have therefore taken up Sanscrit to show them how sublime, useful and instructive are the precepts in Hindu Shastras.

More specifically, this preoccupation was reflected in Anandibai's medical dissertation submitted for her MD, on 'Obstetrics among the Aryan Hindoos' [Joshee 1886] – a topic which she justified in these words:

> As the importance of obstetrics can be measured only by the value of life and health, and both being of paramount consequence, it is deserving of most careful study. When we realise how difficult and vast the subject is, it is not surprising to find so many great minds thoroughly absorbed in its magnitude, from the time immemorial. Since our study naturally embraces, the cause and effect, race habits, climatic influences and means of assisting Nature in her operations, we must not entirely overlook the history of past ages and consider the superior minds, which laboured, with marked success in the same field of investigation, under the promptings of the same motives, as far back as 15 Century B C. They may enable us to the better appreciation of the science and pay due respect to the discoveries, theories and mode of application of remedies of minds of different nations at different times I therefore need not apologise for choosing this subject ..

The dissertation outlined in detail the "good rules laid down by Manu the great aryan legislator, Susruta, and other physiologists", regarding the hygiene of pregnancy, causes of abortion, preparation for lying in, accidents of labour, and, briefly, the diseases of infancy and was concluded with these lines:

> I have not mentioned those principles, theories and treatment in this paper which are entirely out of practice in India, though there are many valuable things with perhaps as many ridiculous ones in our ancient medical and surgical literature (concerning obstetrics) that are not in practice. I have said too little to do justice to what is taught and practised among the brahmins but on account of the rarity of valuable time and space I am obliged to say no more

That Anandibai's interest in ayurvedic medicine transcended mere nationalistic pride into genuine belief in its efficacy is indicated by the fact that she was under ayurvedic and not western medical treatment during her last days (provided the choice was hers and not her husband's).[23] Had she lived longer, she might even have been able to forge a gradual entry into this orthodox male-dominated science.

III
Articulations, Actions and Social Repercussions

If Anandibai's conformist image overshadowed everything non-conformist about her, it was for rather complex reasons. Tensions were inherent within the totality of her partially feminist private beliefs, and between these and her largely conventional actions. If she made a progressive feminist statement through her medical studies in America to help ailing women back in India, she also made an emphatically conventional and anti-feminist statement by conforming to the orthodox image of the ideal Hindu wife – which probably originated partly in

genuine belief, partly in the need to keep her reservations to herself in a society which allowed no space for woman's protest against the patriarchal family institution, and partly in the nationalistic spirit which would not allow her to criticise Indian society to non-Indians However, given the wide spectrum of her contemporary feminist expression (with various permutations and combinations), these tensions may not necessarily have resulted in a "cognitive dissonance". The fragmentation obvious to us from our very different vantage point may not have been experienced as problematic by her or her contemporaries.

In her private letters Anandibai acknowledged the general subordination of Indian women, their oppression within marriage and family, and implicitly also their sexual oppression, as well as the religious and socio-legal endorsement of these. In public, however, she never touched upon these issues and even defended the custom of child marriage. Incidentally, Gopalrao himself, for all his reformist image, was a staunch supporter of child marriages which, for him, was a matter of national pride. In a letter to the editor of The Index of Boston (April 1, 1886), he defended child marriages as "simple and innocent", born out of the Indian "abhorrence of lottery in love", because "late or choice marriages... are made and unmade according to the demands of lust". He insisted that Indians did not want to adopt "this substitute for early and permanent marriage" which was a "cheap commodity from Europe", adding: "Let England and America preserve it as an emblem of independence and liberty" Gopalrao's clinching arguments were that: "Wherever the child marriage does not prevail, there prostitution is carried on on an extensive scale" and that "We have no such divorce system as you have in the United States". Whether Anandibai used any of these arguments during her talk on child marriage remains unknown.

It was only on one part of women's subordination, namely the denial of education and health care, that Anandibai's private and public views coincided. At the same time, her very visible deference and obedience to her husband's wishes served to negate her feminist stand, reinforce the conventional ideal of womanhood, and resist all social institutional change. Her respect for convention, especially her insistence on retaining a Maharashtrian brahmanic diet and dress (with the only change that the nine-yard sari was worn in the Gujarati style, as more suitable to the cold climate) underscored the traditional role of women as the chief repositories of culture, and received disproportionate attention. It is possible that her behaviour stemmed more from a mooring to her cultural anchorage than any intended anti-feminism, but to the contemporary Maharashtrian mind, this achievement seemed as great as her medical degree. *The Mahratta* welcomed the Joshees to India by emphasising that "the difficulties of Mrs Anandibai were such as no man or woman of ordinary moral and physical strength could have overcome", but that happily she and Gopalrao overcame them all and returned to India "with western culture but without a taint of western vice. Mrs Joshee has preserved her Hindu habits and customs and that too at no small personal inconvenience"; and invited "the orthodox people as well as reformers" to "duly appreciate the worth of . Anandibai's heroic act" (November 21, 1886:4).

Anandibai's public vow to "go to America as a Hindu and return as a Hindu", which she fulfilled in letter and spirit, was cause for great relief and reassuarance to a society which had just 'lost' Pandita Ramabai to Christianity in 1883 during her much-opposed visit to England. Predictably this aspect of Anandibai's life received exaggerated publicity, favourably contrasted with Pandita Ramabai. Given the fact that other educated women like Ramabai and Rakhmabai had attacked Hindu social customs and even religion, it was natural for conventional society to seize the opportunity to claim Anandibai as its own, more in spite of than because of her medical degree. After all, presenting Anandibai as a role model had the advantage of pressing home the ideal of the devoted wife without the fear that any other woman would be inspired to emulate her educational achievement – simply because none would be allowed to, either by her husband or her marital family. It is significant that the next woman to become a medical doctor was Rakhmabai who left for England in 1889, a year after she was formally released by her husband from the marriage which she had repudiated, and with full support from her parental family [Kosambi 1995c]. Obviously, not many other women of the educated class would have such freedom.

Thus the social repercussions of Anandibai's fragmented feminism were predictably complex and contradictory. Even while her 'submissive wife' image valorised the patriarchal ideal and indicated the limits to women's achievements, this very conformity to convention enabled her to carve out a new emancipatory space for women within this constricting social structure [Kosambi 1994:19]

IV
Popular Image and Retrieved Image

It is ironical, though perhaps not surprising, that Anandibai's original image as an achiever, projected by her feminist biographers Kashibai Kanitkar and Carolyn Dall, came to be effectively subverted by her popular image created by a male novelist, S J Joshi (1970).

Kashibai Kanitkar's biography of Anandibai is unique as the very first biography of a Maharashtrian woman written by a contemporary, herself a woman, and, moreover, in Marathi. In her Preface, Kashibai records her feminist idealistic determination that the biography of such a great woman should be written by a woman, and not by one of the many willing men – a determination which ultimately compelled her to undertake the task herself, with an aim spelt out in these words:

> If this book ignites, in the mind of even a single one of my sisters, a spark of the patriotic fire which forever burnt in Anandibai's great heart, I shall consider myself blessed and the happiest person in the universe [Kanitkar 1912, Preface:4*].

In elucidating Anandibai's greatness, Kashibai identifies the obstacles confronting her and the resultant tensions:

> Aiming at the general progress of her sisters, Anandibai was able to display several achievements, such as constantly battling with obstacles in her path; working out a compromise between the old and new viewpoints with wisdom, far-sightedness and maturity; pleasing the modern impatient reformers without hurting the old-fashioned people; not adopting a foreign religion even after spending three years in a totally Christian country; cherishing her own cultural practices without offending the foreigners – achievements which no man has so far been capable of! What does our country need? The answer is – determined and courageous individuals like Dr Mrs Anandibai [Kanitkar 1912, Preface:8*].

Kashibai's biography, intended to serve the dual purpose of inspiring women to great achievements, and inducing men to support them, is consciously used as a platform for making public statements on the problems of women, invariably accompanied by suggested liberal reformist solutions. Her perception of Anandibai as a role model forms the very basis of the biography, written as a 'modest commemoration' of her extraordinary efforts for national welfare [Kanitkar 1912:322].

This reformist stance stemmed from Kashibai's unstated but obvious empathetic understanding of women's problems, within a shared socio-cultural context. At the same time, being situated in a society in transition also created inner tensions and contradictions in Kashibai's ideological position. Her conscious tussle with the power of patriarchy and her occasional submission to it are reflected in an ambivalence (also shared by Anandibai) which result in her projection of Anandibai,

alternately as an independent agent and a creation of her husband to whom she owed a heavy debt of gratitude

Predictaolv, only one part of Anandibai's image, that of a devoted wife who followed her reformer husband's dictates and was propelled into fame as his creation, gained ground during her own lifetime when Gopalrao Joshee was much lionised as a reformer who outpaced others to make his wife into a role model for Indian womanhood. Endorsed by an ambivalent Kashibai Kanitkar herself, this image assumed a life of its own as the real Anandibai Joshee half a century later in S J Joshi's gripping Marathi novel *Anandi Gopal* (1968, 1970). The novel weaves an imaginary world around an authentic and very selective biographical core taken from Kashibai (creating a misleading impression of it being genuinely historical source material), and has enjoyed immense popularity, together with its stage adaptation But, for all its appeal and occasional insights into a bygone age, it remains a work of fiction – which becomes problematic mainly for its subversive androcentric projection of a passive non-feminist image of Anandibai. The same holds true of its abridged English translation Anandi Gopal (1992).

Ironically, S J Joshi also claims empathy with the Joshees, born out of a shared middle class Brahmin culture and life-style of pre-World War II Pune, which according to him had remained unchanged for a hundred years [Joshi 1970: Preface]. Joshi imposes this cultural ethos, built around the mainstream Brahmin society's strongly patriarchal values, preferences and frustrations, on the narrative of the Joshees' lives, but is unable to grasp the socio-political transitions of the late 19th century, or the distance travelled by the Joshees (especially Anandibai) from the shared brahmanical culture. In fact, the novel's protagonist is not really Anandibai who is portrayed as a tragic and almost defeated figure rather than a courageous one facing life's challenges, but Gopalrao who is portrayed as a frustrated visionary whose mischievous eccentricities (some of which the author has located before Anandibai's death as a matter of artistic licence) are presented as justifiable or even heroic. In fact, the novel reaches its climax with Anandibai's realisation and admission, on her death-bed, that Gopalrao is far ahead of their society which is incapable of understanding his true worth. Thus an 'empathetic' subjective interpretation, unfounded on facts, distorts an intelligent, self-sufficient, independent, young Anandibai – outspoken about the need for women's education and health care, staunchly nationalistic but open-minded about matters of religion, and possessing a quiet sense of humour – into a pathetic puppet living in constant dread of her husband's fiery temper and venomous tongue.

As one perceptive critic of the novel has pointed out, Gopalrao's undoubted courage in sending Anandibai alone to America need not be accorded inflated importance, nor is there any justification for his blatantly publicity-hungry behaviour or his jealousy of his wife's achievements which made him constantly upstage and humiliate her through verbal attacks on her and everything associated with her success – the American society, women's education, and finally even western medicine [Dhond 1994]. In misrepresenting Gopalrao, S J Joshi has also misrepresented Anandibai whose sadly short but eventful life has been reduced to a melodrama, whose agency has been buried under her alleged submissiveness, and whose innovative coping mechanisms [Kosambi 1992] have been completely obscured.

Unfortunately it is this image which has captured the Maharashtrian psyche. Arguably then, Anandibai's real tragedy is to live on through a false popular image as an intelligent but dependent and obedient wife of an allegedly visionary husband rather than as an independent agent with a will of her own – a popular image which has successfully eclipsed her emergent feminism, however fragmented and contradictory.

Notes

[This article is based on the material collected during the last few years towards a forthcoming book on Anandibai Joshee.

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It should be clarified that the wide variation seen in Anandibai's style of writing has arisen because some of her letters are available in the original, some (along with the manuscript of her speech) are available in Dall's edited version, and some have been translated by me from the Marathi originals (or translations) in Kanitkar (1912).]

1 Tarabai Shinde's booklet *Stree-Purusha Tulana* (1882) was resurrected by G S Malshe in 1975.

2 Rakhmabai's court case was first discussed by Y D Phadke in an article in 1977, and further details together with her letters (published under the pseudonym 'A Hindu Lady' in *The Times of India* in 1884) were publicised in Mohini's Varde's biography of her (1982). For a further discussion of Rakhmabai's court case and the controversy surrounding it, see Kosambi (1995c)

3 The only writings of Pandita Ramabai currently available are *The High-Caste Hindu Woman* (1887) reprinted in 1981 by the government of Maharashtra, and *A Testimony* periodically reprinted by the Ramabai Mukti Mission at Kedgaon (10th ed, 1977). For a discussion of Ramabai's contribution and marginalisation, see Kosambi (1988, 1992, 1995a)

4 Anandibai sailed on April 7, 1883 from Calcutta for New York via London, under the nominal escort of European missionary ladies, but alone for all practical purposes. A few days later, on April 20, 1883, Pandita Ramabai sailed for London from Bombay with her baby daughter and a woman companion

5 Short lives are often seen as a biographical handicap "It may be romantic to die young, but poets aside, it's not much of a biographical proposition" [Roe 1992 5]. Anandibai's short life had complex effects while the biographical material is rich enough to overcome the handicap, her early death (with the obvious and oft-drawn comparison with Keats) served to romanticise and popularise her, for better and for worse .

6 Gerda Lerner (1992 xix) discusses the existing documentation of women's history as "refracted doubly - through the lens of men's records and observations, through the application to it of male values"

7 This has been partly done in Kosambi (1995a), while discussing Pandita Ramabai's evolution towards feminism

8 Anandibai's views and their effect on Maharashtra have been partly examined in Kosambi (1994), in comparison with those of Rakhmabai and Pandita Ramabai. However, new material has since come to light, in the form of Anandibai's letters mentioned above.

9 These biographical details have been collected largely from Kanitkar (1912) and supplemented with Dall (1888)
Anandibai's parental family spelt the surname as 'Joshi' and her husband as 'Joshee', the same spellings are retained here. Maharashtrian names are written starting with the personal name, followed by the father's or husband's name, and lastly by the surname.

10 All quotations marked with an asterisk (*) are my own translations from the Marathi.

11 The few young women who managed to get an education did so at home from their reformer husbands; it was not considered 'proper' to send girls to school; in any case, girls' schools existed only in large towns and cities.

12 The tutoring of wives was done at night, when the couple could legitimately spend time together. A case in point is Ramabai Ranade's experience of her lessons done in the early hours of the morning, and her

harassment by the older women in the family for even agreeing to be educated [Ranade 1910]. An excellent and representative statement of the daytime sex-segregation within the house is the remark by Anandibai's contemporary, Yashodabai Joshi: "During the whole day, the menfolk and the womenfolk in our house did not even see each other except at mealtime; then what possibility was there of talking to each other or spending time together?" [Y Joshi 1985:17*].

13 The urge to convert a close friendship into a surrogate blood relationship was conspicuous in other contemporary cases as well Pandita Ramabai, for example, called her elderly spiritual preceptress Sister Geraldine 'Ajeebai' (grandmother) [Pandita Ramabai 1977].

14 This particular experience of the British official attitude to Indians seems to have considerably reinforced Anandibai's anti-social stance which surfaces in some of her letters -- a stance which contrasts with an affinity to Americans who were perceived to be free from colonial biases (though not from the bias of racial/cultural superiority to which Anandibai did react sharply in her private letters to India). The same triangular Indo-British-American relationship also played an important role in Pandita Ramabai's life and career

15 Bodley had written a special letter of invitation to Pandita Ramabai (then in England) for this occasion, acknowledging that it would greatly benefit Anandibai if Ramabai "gave your sanction to her act and enfolded her and her work in your own future leadership" [Pandita Ramabai 1977.165]

16 Anandibai's name was sometimes spelt 'Anandabai' by her American friends, including her biographer Dall, though not by the Carpenters, which makes the discrepancy noticeable in this case. The grave marker features as a landmark on the 'walking tour' offered by the Poughkeepsie Rural Cemetery My first sight of it on a cold and snowy day in December 1995 was almost overwhelming in its symbolism.

17 Gopalrao's only other lasting contribution was the education of his late brother's only child, a daughter named Sai, later married to Wrangler R P Paranjape of Pune Saibai was the mother of Shakuntalabai Paranjape, famous for her writings and pioneering work in family planning (as an associate of R D Karve, son of D K Karve), and the grandmother of Sai Paranjape, the well-known playwright and film-maker. This is another link across time which brings Anandibai and Gopalrao closer to us.

18 In the early and mid-1880s, Pandita Ramabai corresponded with both Anandibai Joshee and Rakhmabai (who had been the secretary of the Bombay branch of the Arya Mahila Samaj [Varde 1991:132], and possibly also Ramabai Ranande (who, however, was hardly a feminist) and Kashibai Kanitkar with both of whom she was well acquainted. Anandibai Joshee corresponded also with Ramabai Ranade and possibly Kashibai Kanitkar.

19 Anandibai registered her strong displeasure in a letter to Gopalrao from America (January 9, 1884) about his habit of sharing her letters with acquaintances, and explicitly requested him not to give them for publication as he was planning to do (Kanitkar 1912:224-29). At that time he had already had extracts from her letters published in newspapers (e g, *The Theosophist*, August 1883, October 1883; *Kesari*, November 6, 1883).

20 Anandibai's frequent usage of terms such as 'civilised countries' for Western countries and 'Natives' for Indians was in conformity with contemporary practice

21 A landmark in this field, the Dufferin scheme (more accurately 'The National Association for Supplying Female Medical Aid to the Women of India', popularly known after its president, the Countess of Dufferin) was launched in 1885 with the objective of bringing "skilled medical women from Europe and America" to provide medical relief to Indian women; training Indian women as doctors, nurses and midwives; and opening women's hospitals and "female wards". The first Indian beneficiary of this scheme was Anandibai, and the second, Dr Rakhmabai.

Before the introduction of this scheme, English girls in India surmounted the difficulty by returning to Europe or going to the US to study medicine. It is interesting to note that among the women who graduated with Anandibai in March 1886 was one Jessica R Carleton from India (*The Philadelphia Evening Bulletin*, March 11, 1886:6)

22 The clearly feminist reference to the male jealousy of female achievement as a major obstacle for women also occurs in Pandita Ramabai's testimony before the Hunter Commission on Education in 1882

23 Kashibai Kanitkar claims that Anandibai herself had insisted on Ayurvedic treatment. However, she admits to having generally relied on Gopalrao's testimony even while questioning its veracity. This inconsistency remains a weakness in her otherwise excellent account of Anandibai's life and letters

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1985 Textile Policy and Handloom Industry

Policy, Promises and Performance

K Srinivasulu

It is a decade since the New Textile Policy was adopted by the then Rajiv Gandhi government. It is time for a critical appraisal of the policy. This paper attempts to assess the impact of the policy on the handloom sector.

I
The Context

RAJIV GANDHI's regime marked the beginning of the early phase of liberalisation. A series of new policy initiatives undertaken during this period, unrestrained by the ideological inhibitions of the earlier regimes, points to the shift. The new found confidence, emanating from a massive popular mandate unprecedented in the electoral history of the Congress and an overwhelming three-fourths majority in the eighth Lok Sabha in the 1984 general elections, was evident not only in these policies but more so in the way they were launched.

The hallmark of the early phase of Rajiv Gandhi's tenure was a decisive attempt at a shift from the framework of state-controlled import substitution to that of a liberalised market economy and export-oriented growth. The economic discourse centred on the concepts of modernisation, efficiency, productivity and market-governed competition which distinguished it from the earlier ideological precepts of employment generation, equality, social justice and socialism. If a new crop of political managers and economic technocrats who formed the core of Rajiv Gandhi's think-tank and close advisors "known for their decontrol and pro-liberalisation proclivities" [Kohli 1989:312 gave Rajiv's Gandhi's initiatives a pronounced visibility, then the catchy slogan of launching 'India into the twenty-first century' its rhetorical flourish. The image of the regime being truly 'liberalised', especially among the post-independent generation of the elite, was unmistakable.

The signals of the liberal dispensation or rather determination could be deciphered in the very first budget submitted in March 1985 within months after coming to power. The budget offered considerable concessions to the industrial and business classes through a reduction of tax on corporate income, exemption of half of the income from exports from corporate tax net, reduction of import duties on a wide range of intermediate and capital goods, in addition to reduction of public sector bank interest rates and concessions to the salariat by hiking the income exemption limit from Rs 15,000 to 18,000. All these measures are informed by the proposition that tax reliefs would release resources from the government for productive use by the 'efficient' private sector. Further, the delicensing of 25 industries pointed to the proposed deregulation of industry. Thus, the 1985 budget heralded a beginning towards liberalisation by loosening the hold of the quota-permit raj through tax concessions, import relaxations and industrial deregulation. In addition, the most significant pointer to the liberal turn, at least in ideological terms, was the conspicuous absence of a reference to socialism, a cherished ideological plank of the Congress leaders after independence. This is in sharp contrast to the earlier budgets which had been premised on "the philosophy of democratic socialism, which is the basis of our mixed economy" [Datta 1985]. This cannot but be interpreted as a deliberate avoidance meant to send clear signals to its core constituency of upper class and business elite by a party which has made most of its fortune by swearing by 'socialism' and the poor, even though in the later period more by habit than conviction.

In the context of this new liberalised dispensation, one has to locate concrete policy initiatives like New Textile Policy, New Education Policy, New Exim Policy, etc. It would be pertinent to note that while all these policies were in tune with the liberalisation refrain, the *modus operandi* in their introduction and enactment point to real or perceived responses to the early liberalisation. To cite two extremes of the liberalisation spectrum, while New Education Policy was released for public debate [Mohan 1985], the New Textile Policy was thrust down hastily without any debate. If the new economic policies were part of a demonstrated move away from the goals of social justice, equality and the promise of protecting the weak and vulnerable sections of our society from the onslaught of the dominant and powerful interests, the New Textile Policy (NTP) unequivocally demonstrated the regime's insensitivity to the plight of the handloom weavers, a numerically significant yet unorganised and vulnerable section of our society. Since resistance was expected to be least effective here, the government showed its determination to push the reforms further.

It is a decade since the NTP was adopted and therefore this is an opportune moment for its critical appraisal. This article attempts to make a critical assessment of the NTP and its impact specifically on the handloom sector. The economic reforms pursued vigorously since 1991 are analytically seen as a continuity, in fact as an attempt at intensifying the liberalisation process initiated during Rajiv Gandhi's tenure, and therefore become critical inputs in the implementation of the NTP.

This presentation is made in six sections. In section II, a critical review of the provisions of the NTP, especially those pertaining to the handloom sector, is attempted. In section III, an attempt to provide an overview of the textile industry by assessing the position of the handloom sector *vis-a-vis* the mechanised mill and powerloom sectors since 1980s and especially after the introduction of the NTP is made. Section IV analyses the crisis in the handloom sector following the policy shift and intensified after the economic reforms were initiated in 1991. Section V deals with schemes introduced as part of the government's response to the handloom crisis and analyses the implicit perceptions and prescriptions. Section VI presents the broad conclusions of this study.

II
New Textile Policy, 1985

The handloom sector occupies an important place in the Indian economy as a major provider of employment next only to agriculture. Within the textile industry, it is this sector which accounts for a large proportion of employment, of which the participation of women and children in both the weaving and related activities is quite significant. According to the 1987-88 Handloom Census there are estimated to be about 2 to 2.5 million directly dependent on handloom weaving and another one million on related activities for their livelihood.[1] The weavers' organisations put the figure much higher: according to whom there are about two crore weavers working on 30 lakh handlooms and an equal number engaged in pre- and post-weaving related operations.[2]

In due recognition of the significant employment potential of this sector, after independence successive governments have both in the plan priorities as well as in the textile policy pronouncements sought to provide a prime place to the handlooms through elaborate safeguards, the most significant being: reservation of articles for exclusive production on the handlooms, imposition of quota and product restrictions on mill sector and discouragement of powerloom expansion through stringent regulations regarding their registration. It is quite a different thing whether these policy commitments were kept in practice in letter and spirit. But what is important to note is that in principle safeguarding the handloom sector has been seen not only as a viable solution to the ever-increasing unemployment problem but also as a means to provide cheap cloth to the poor.

Productivity, Main Objective

The NTP introduced by the Rajiv Gandhi's government in 1985 marked a decisive departure from the earlier policies not only in terms of priorities and emphasis, but even in the very way of understanding the textile industry. For the first time in the post-independence period, emphasis has been placed on productivity in sharp contrast to the hitherto thrust on employment Thus it stated:

> ..the multiplicity of objectives has inhibited the achievements of the *main task* of the textile industry, that is *to increase the production of cloth* of acceptable quality at reasonable prices to meet the clothing requirements of a growing population. Henceforth, the approach to the textile industry would be guided by this main objective [GOI 1985, emphasis added].

Further,

> in pursuit of the main objective [of increasing production of cloth], the employment potential of the industry *shall be kept in view* [GOI 1985, emphasis added].

The NTP signalled a disturbing trend with serious long-term consequences. As noted by sensitive observers of the Indian economy, the Rajiv Gandhi regime furthered the divorce between planning on the one hand and budget and specific policies on the other, thereby underscoring "once again how irrelevant the notions of planning and five-year plan priorities to encompass the whole economy are in the concrete political-economic circumstances of the country" (*EPW*, editorial, April 20, 1985). This scenario has strengthened the view that "planning commission has been systematically demoted " [Datta 1985].

The specific case of NTP clearly demonstrates the distance between the identified plan objectives and priorities and the objectives of the NTP. The Seventh Plan document [Planning Commission: 1985] promising "an employment-oriented plan" (p x), identified "generation of productive employment" (p 23) as the central aspect of the developmental strategy. Since the "potential of direct employment generation in large-scale industries and in much of the infrastructural sectors is not high because these industries are fairly capital-intensive" (p 24), to generate productive employment in rural areas "intensification of agriculture and village and small industries and diversification of rural economic activity" (p 33) is emphasised. Deviating from this policy perspective, the NTP, as suggested above, has marked a shift from employment to production as well as (as will be shown below) from labour-intensive small-scale industry (with massive employment potential) to capital- and technology-intensive mill sector. Thus, it would not be an exaggeration to state that the NTP has demonstrated this trend which was to get further strengthened with the passage of time.

Process View of Textile Industry

The fairly well accepted way of viewing the textile industry and its problems for policy-making and scholarly analysis has been in terms of sectoral differentiation – the three sectors being handlooms, powerlooms and mills. Since yarn is the principal input for textile production further differentiation of each sector on the basis of fibre use (i e, cotton, silk, wool and synthetic fibres) is also seen as a useful method of understanding the textile industry. The 1985 policy, without much rationale, had judged the sectorwise and fibrewise policy orientation to the textile industry as leading to the compartmentalisation of the industry and identified it as the cause of "structural rigidities" leading to the emergence of special interests in the industry and its fossilisation. In contrast, it proposed a process-related view of the industry – spinning, weaving and product processing being the principal ones – as the "comprehensive view" and held it as the key to the elimination of the existing structural rigidities, by providing the industry with "fuller flexibility in the use of various fibres" and "pragmatic policies regarding creation or contraction of capabilities by units to increase competition and promote healthy growth". As if to promote competitiveness it promised to open the export window for "cotton, yarn and other manufactures" [GOI 1985:1-3].

Though it is a matter of common knowledge, yet it needs to be emphasised

Table 1: Powerlooms and Handlooms

Year	Powerlooms: Total	Powerlooms: Cotton	Handlooms
1941	11,640	6,750	–
1963	150,000 (1188.66/54)	80,000 (1085.19/53 87)	–
1974	–	–	3,563,363
1975	309,913 (106.61/9.7)	193,097 (141 37/21 94)	–
1981-82	503,000 (62 7/7.78)	328,000 (69 86/8.7)	–
1982-83	600,000 + 160,539 unauthorised pending regularisation (93.60/11.70) (145.40/18.17)*	424,000 estimated (119.57/14 94)	–
1987-88	–	–	3,324,000 (-6.72) [3,078,000 + 246,000] working + idle
1989	1,073,994 (113.52/14.19)		–

Notes: Figures in parentheses show gross and per annum percentage of growth in each sector calculated to the year in the preceding row, except for the year 1982-83 the base year is 1975.
* Percentage of growth of powerlooms, inclusive of unauthorised powerlooms.

Sources: For powerloom data for the years 1941, 1963, 1981-82 and 1982-83, L C Jain (1983), Table 1, p 1518;
For handloom data for 1974, 'Report of the High-Powered Study Team on the Problems of the Handloom Industry, July 1974', quoted in Ritu Anand (1978-79), Annexure I.
For powerloom data for 1975, Ritu Anand (1978-79), Annexure I.
For powerloom data for 1989, Office of the Textile Commissioner quoted in GOI (1990), Table 3, p 44.
Handloom data for 1987-88, Census of Handlooms: DC (H), in GOI (1990), Table 24, p 59.

that only a sectoral understanding would open up the possibility of appreciating the relative advantages/disadvantages individual sectors have in textile production and marketing. On the contrary, any attempt to view the textile industry in terms of the processes would not only overlook or ignore the specificities of each of the sectors – determined by the requirement of raw materials and capital, employment structure, labour conditions, production and marketing structure and consumer demand pattern, etc – but would in fact tend to treat all the sectors to be equal in their ability to compete in the market at various stages. Needless to say, this is not only far from true but in fact would prove to be detrimental to the vulnerable and disadvantaged social groups involved in handloom weaving.

Once the sectoral view of the industry is declared irrelevant, and fostering competitiveness of the different sectors is identified as the key to boosting fabric production and thereby to increasing consumption then from this perspective and objectives emerges a different diagnosis of the problems of the textile industry and the necessary solutions

It would be necessary to note that the contribution of the mill sector to total textile production has steadily declined over the years, while the share of powerlooms has recorded a phenomenal increase. For instance, the five-year period before the NTP, i e, between 1980-81 and 1984-85, shows a decline of 9.36 percentage points in the mills' share from 37.93 per cent in 1980-81 to 28 57 per cent in 1984-85, while during this period the powerloom share had recorded a 7.64 percentage point increase. The decline in mill production can obviously be traced to the restrictions on capacity and fibre-use, imposition of heavy excise duties, controls on the import of polyester fibre and of technology for modernisation of the mill sector by the earlier policy regimes and of course the resistance of the organised working class to the mill owners' attempt at retrenchment. Though this policy intervention was intended to protect handlooms, its unintended consequence was the expansion of the powerlooms. In contrast, the advantage of low duties, the presence of an unorganised and low paid workforce and the possibility of flouting all kinds of regulations in every conceivable way has benefited the powerlooms. It is against this ground reality that the "proposed restructuring of the textile industry" in the NTP has to be read. The measures to provide "fuller flexibility" in the fibre-use and "pragmatic policies" to increase competition and promote "healthy growth in the industry" are undoubtedly meant for the mill sector. Thus, a Textile Modernisation Fund, soft loan scheme of the IDBI and a Rehabilitation Fund for workers (i e, to facilitate easing out of the workers by mills) were envisaged. And the pace with which the government acted on the removal of capacity restrictions, reduction of excise duty, creation of Rs 750 crore Textile Modernisation Fund and of special loan provision for Rs.100 crore with a mere 6 per cent interest per annum with a six-year moratorium and repayability of 18 years [Jain 1988] not only point to the power of the millowners lobby but more significantly to the ultimate turn of the NTP. While the mill-owners are uniformly the beneficiaries of the modernisation scheme, its brunt had to be borne by the workers as evident in the fact that in the first three years of NTP around 1.8 lakh mill workers were retrenched [Jain 1988]. This trend continued and by the end of the fifth year of the NTP (i e, from 1985 to 1989) around 567 mills (both spinning and composite) were closed affecting 7.27 lakh workers [GOI 1990:53].[3]

Thus, a perceptive policy shift in the 1985 statement from the objective of employment coupled with productivity to the single-most important objective of productivity and from a sectorwise perspective to a process-related one marked a decisive departure from the past and created a favourable atmosphere for the mill and powerloom sector.

Promises to Handloom Sector

The 1985 Textile Policy though it made a major departure from the past by proclaiming *increase in productivity* as the main objective, did not shy away from making profuse promises to the handlooms – "to preserve the distinctive and unique role of the handlooms to enable them to realise their full potential and ensure higher earnings to the weavers" [GOI 1985:4].

The measures intended to preserve the handlooms are:

(a) modernisation of looms to improve handloom productivity and quality;
(b) necessary measures to encourage and increase spinning in khadi sector, given its large employment potential;
(c) ensuring the availability of yarn and other raw materials at reasonable prices;
(d) encouragement to the production of mixed and blended fabrics on handlooms by making man-made fibre adequately

Table 2. Production of Fabrics by Sector

(mn metres)

	Mills		Powerloom		Handloom		Total	
	Cotton	Total	Cotton	Total	Cotton	Total	Cotton	Total
1980-81	3434	4168	2334	4140	2600	2680	8368	10988
	(41 03)	(37.93)	(27 90)	(37.68)	(31 07)	(24 39)	(100)	(100)
1981-82	2923	3808	2520	4547	2540	2626	7983	10981
	(36 61)	(34 68)	(31 57)	(41.41)	(31.82)	(23.91)	(100)	(100)
1982-83	2393	3132	2830	4694	2730	2788	7953	10614
	(30.09)	(29 51)	(35.58)	(44.22)	(34 33)	(26.27)	(100)	(100)
1983-84	2704	3487	3148	5315	2889	2956	8741	11758
	(30.93)	(29 66)	(36.02)	(45.20)	(33.05)	(25.14)	(100)	(100)
1984-85	2619	3432	3348	5445	3073	3137	9040	12014
	(28 97)	(28.57)	(37 04)	(45.32)	(33 99)	(26 11)	(100)	(100)
1985-86	2587	3376	3435	5886	3156	3236	9178	12498
	(28.18)	(27.01)	(37 43)	(47.10)	(34.39)	(25.89)	(100)	(100)
1986-87	2470	3317	3676	6222	3376	3449	9522	12988
	(25.95)	(25.54)	(38.60)	(47.91)	(35 45)	(26.55)	(100)	(100)
1987-88	2234	3027	3734	6457	3432	3508	9400	12992
	(23.77)	(23.30)	(39.72)	(49.70)	(36.51)	(27.00)	(100)	(100)
1988-89	2021	2808	3680	7008	3381	3466	9082	13282
	(22 25)	(21.14)	(40 52)	(52.76)	(37 23)	(26.10)	(100)	(100)
1989-90	1957	2667	5965	11632	3837	3924	11759	18223
	(16 64)	(14.64)	(50.73)	(63.83)	(32.63)	(21.53)	(100)	(100)
1990-91	1859	2589	6887	13348	4237	4295	12983	20232
	(14.32)	(12.80)	(53.05)	(65.97)	(32 63)	(21.23)	(100)	(100)
1991-92	1651	2376	6383	13262	4065	4123	12099	19761
	(13.64)	(12.03)	(52.76)	(67.11)	(33.60)	(20.86)	(100)	(100)
1992-93	1407	2000	7306	14644	4686	5219	13399	21863
	(10.50)	(09.15)	(54.53)	(66.98)	(34.97)	(23.87)	(100)	(100)
1993-94	1356	1990	7836	15994	5241	5851	14433	23835
(P)	(09.40)	(08.35)	(54.29)	(67.10)	(36.31)	(24.55)	(100)	(100)
1994-95	899	1370	5845	12303	3746	4185	10490	17858
(Apr-Dec)	(8 57)	(07.67)	(55.72)	(68.90)	(35.71)	(23.43)	(100)	(100)

Note: Totals include cotton, blended and 100 per cent non-cotton fabrics only. Percentages are given in the parentheses.

Sources: Data for the years 1980-81 to 1988-89, Office of the Textile Commissioner, quoted in GoI (1990), Table 8, p 47 ;
Data for the years 1989-90 to 1994-95 (April-December), Annual Report 1994-95, Ministry of Textiles, Government of India, Appendix X, p 70.

available at reasonable prices by increasing domestic production supplemented by imports.

(e) providing market facilities; and

(f) introduction of Contributory Thrift Fund and Workshed-cum- Housing Scheme.

Handloom Reservation Act

Handloom (Reservation of Articles for Production) Act, 1985 (22 of 1985) reserving 22 varieties of articles for exclusive production in the handloom sector is a major concrete initiative in the direction of protecting handlooms from the powerloom and mill sectors. In spite of the promise made in the textile policy that this act "shall be strictly enforced and the machinery for doing so shall be suitably strengthened" [GOI 1990: 4] the track record of the last decade points to the contrary. The story of this act deserves to be narrated for it clearly illustrates how whatever limited legal safeguards the artisanal communities in our society may have are diluted and rendered ineffective, through a combined effort of the powerful private capitalist vested interests.

Challenged by the powerful lobbies of powerloom and mill owners soon after its enactment and helped by the disinterested response, rather the complicity, of the officialdom, the act remained *sub judice* for eight long years. Thus the implementation of the act was effectively stalled and with the powerloom and mill sector having a field day, the damage caused to the handloom weavers is simply unimaginable. Taking note of the seriousness of the issue the Abid Hussain Committee eloquently recommended that "the reservation for handlooms should be placed in the Ninth Schedule of the Constitution in order to avoid the legal challenge to this legislation" [GoI 1990:13]. The committee further noted the urgency to create the necessary institutional mechanism for its implementation. The government simply sat over the recommendation of this 'high powered' committee.

When the Supreme Court finally upheld the reservation of articles to the handlooms in February 1993 the observations it made in its historic judgment (Parvej Akhtar V Union of India) while setting aside the objections deserve to be noted [(1993) 2 *Supreme Court Cases 221*, p 237].

Two major grounds on which this act was challenged were : (a) that the act would lead to the monopoly of the handloom industry; (b) that the act violated the equality clause (Article 14 of the Fundamental Rights) of the Constitution. The fact that reservations in favour of the handlooms have existed since 1950 and that this has "not deterred the growth of powerloom sector in the last three decades" makes the argument of handloom monopoly "totally baseless". Instead, the powerloom production of the handloom reserved varieties, because of the "unequal competition" has "caused a serious inroad into the handloom industry" [SCC, p 237, para 54]. Further, invoking "reasonable classification" criterion to vindicate the equality clause, it justified the reservation act for the protection of the "handloom sector against unequal and powerful competition by the mechanised powerloom/mill sector" [SCC, p 240, para 61].

With this, when the ground was cleared for the execution of the act, the liberalisation regime, instead of implementing the act by creating a proper institutional mechanism to effectively control any further damage to the handloom sector, constituted a multi-member committee to go into the very question of handloom reservations. Thus, the whole issue in its serpentine sojourn has practically turned a full circle to arrive at the point from where it has to begin afresh.

In any case, the snail's pace of its implementation and the shockingly low number of cases of violations noticed – a mere 656 First Information Reports (FIR) were lodged out of 72,553 powerlooms inspected up to January 1995 [GOI 1995: 12] when violation of the act by powerloom owners is more a norm than the exception – only point to the might of the forces the handloom weaver has to protect himself from.

III
Impact of the NTP: An Overview

Three methods of assessing the impact of the textile policy on the structure of the textile industry in general and on the handloom sector in particular could be identified They are: (a) the position and number of handlooms; (b) hank yarn availability; and (c) the fabric production in the handloom sector.

Handloom Position

The textile industry presents a dynamic sectoral interrelationship. Thus for the assessment of loom position and weaver status in the handloom sector, given its structural disadvantages in the competitive textile market, it is necessary to examine the performance of other sectors. The high-powered committee of the Planning Commission (1974) headed by Shivaraman (hereafter Shivaraman Committee) noted that for every powerloom set up, six handlooms are rendered dormant – which means that for every job created in the powerloom sector 14 handloom weavers are displaced. (It has

Table 3: Production, Delivery and Export of Cotton Yarn

(mn kgs)

Year (1)	Production of Yarn (2)	Countwise Production of Yarn (3) 1-20s	21-40s	41-80s	81-above	Delivery of Hank Yarn (4)	Col 4 as Per Cent of Col 2 (5)	Export of Yarn (6)	Col 6 as Per Cent of Col 2 (7)
1987-88	1321	–	–	–	–	343	25 96	42 10	3.18
1988-89	1310	421	667	188	34	315	24 04	53.00	4.04
1989-90	1372	473	683	183	33	310	22 59	63.62	4.63
1990-91	1510	551	733	193	33	342	22 65	94.68	6.27
1991-92	1450	553	695	167	35	328	22 62	110.99	7.65
1992-93	1523	570	747	175	31	348	22 85	145.00	9.50
1993-94	1622	633	770	182	37	376	23.18	216.00	13.32
1994-95 (P)(Apr-Oct)	910	355	432	102	21	211	23 19	–	–
1994-95 (A)	1580	617	750	177	36	366	23.16	243.00	15.37

Note: As per the *Economic Times* report (April 11, 1994), the production figures for 1988-89 and 1989-90 are 1,202 mn kgs and 1,367 mn kgs. We have retained the figures given in the *Annual Report 1994-95*, Ministry of Textiles.

Sources: Data for 1987-88, Office of the Textile Commissioner, 'The Textile Industry in the 1990s: Restructuring with a Human Face', Report of the Committee to Review the Progress of the Implementation of Textile Policy of June 1985, GOI, New Delhi, January 10, 1990, Table 6, p 46.
Data for the years 1988-89 to 1994-95, *Annual Report 1994-95*, Ministry of Textiles, GOI.
For yarn export figures for 1988-89 to 1991-92, *Economic Times*, April 11, 1994; for 1992-93 and 1994-95 L C Jain, *Financial Express*, April 18, 1996.
Figures of cotton yarn delivery for 1987-88, 'Textile Industry – A Profile' (mimeo), Table 7, p 7; for production of yarn, Table 6, p 6.

been calculated that the per weaver productivity in the powerloom sector is 14 times more than that in the handloom sector.)[4]

Though the Shivaraman Committee noted the alarming rate of growth of powerlooms (the overall growth rate in powerloom sector being 9.7 per cent per annum and that of the cotton powerlooms being 21.94 per cent per annum between 1963 and 1974) and duly recommended strict restrictions on both the permission to set up new powerlooms as well as on the varieties to be manufactured, the expansion in this sector went unhindered. While there are problems with the data on powerlooms [Jain 1983: 1518] it could nevertheless be noted with some degree of certainty that between 1975 and 1982-83 while the overall growth of powerlooms was 11.7 per cent per annum, the growth of cotton powerlooms was 14.94 per cent. Though in terms of percentage points, the rate of growth of powerlooms between 1975 and 1982-83 was less than that between 1963 and 1975, in numerical terms the growth of powerlooms was phenomenal, that is, by 1982-83 2.3 lakh new cotton powerlooms were added to 1.93 lakh cotton powerlooms estimated in 1975, while with the overall addition of around 2.90 lakh powerlooms the total tally of powerlooms went up to 6 lakh and with another one lakh sixty thousand awaiting regularisation (Table 1). Given the cost effectiveness and price advantage in the textile market that the powerloom products have over handloom cloth, the phenomenal growth in powerlooms could only be characterised as leading to the 'cannabilisation' of handlooms [Jain 1983]. But curiously enough this is not reflected in the available handloom statistics of 1974 and 1987-88. Going by the Shivaraman Committee's estimate, the addition of 2.90 lakh powerlooms should have displaced 17.4 lakh handlooms (at the displacement rate of 6 handlooms per every new powerloom), which in turn means a loss of 41.76 lakh jobs per annum in the handloom sector (at the rate of 2.4 persons employed on each handloom) But the 1987-88 handloom census show a decline of handlooms to the tune of 2.39 lakh and another 2.46 lakh recorded as being rendered dormant. This is a gross underestimation that makes the handloom figures suspect unless one wishes to assume that handlooms coexisted very happily with the phenomenally growing powerloom sector, withstanding the intense competition from the latter.

Yarn Availability

Another method of assessing the relative position of the different sectors in the industry is on the basis of production and delivery of yarn. Though it would be difficult to establish how much of cotton yarn has been made available to the mill and powerloom sectors, as far as handlooms are concerned on the basis of the data available on the hank yarn delivery and assuming that all this is converted into cloth on the hand-looms it would be possible to guess how much cloth is produced on handlooms. It is pertinent to note that while the hank yarn obligation of the spinning mills was 50 per cent of the total yarn production, the cotton hank yarn delivered between 1987-88 and 1994-95 never did exceed 26 per cent, instead has declined to 23.10 per cent in 1992-93.

It is estimated that 1 kg of cone or hank yarn yields 10 metres of powerloom or handloom cloth.[5] Thus the hank yarn delivered should (assuming that all this reached the handloom sector) match with the cotton cloth produced on the handlooms in the proportion of 10 metres per 1 kg of yarn. But what could be found in the data for the period of five years from 1988-89 to 1992-93 (Table 2 and 3) is a gross incongruity or mismatch between the figures of cotton cloth produced and the hank yarn delivered, with the former being many times more than the latter during this period. For instance, in the year 1988-89, if cotton hank yarn delivered was 315 mn kgs the cotton handloom fabric production was 3381 mn metres (ie, the fabric production exceeded by 231 million metres) and by 1992-93 the differential reached a staggering 1206 mn metres with the hank yarn delivered being 348 mn kgs and fabric production being 4686 mn metres in 1992-93. All this in spite of the export of hank yarn far above the ceiling fixed by the government.

The reason for this should not be very difficult to look for. It cannot, by any stretch of one's imagination, be due to the free availability of hank yarn, nor because of the conversion of cone yarn into hank yarn. As a number of studies and reports of handloom committees clearly point out this cannot but be due to the marketing of powerloom cloth as handloom cloth at various stages [GOI 1990, Jain 1983].[6]

Fabric Production

Now let us turn to the analysis of fabric production, sectorwise. While the cotton fabric production in the mill sector was 41 per cent in 1980-81, it has declined to 28.18 per cent in 1985-86; its decline has been sharper and reached 10.5 per cent by 1992-93. The total fabric production in mill sector also recorded a declining trend: from 37.93 per cent to 9.15 per cent between 1980-81 and 1992-93. The cotton fabric production in the handloom sector during this period has fluctuated between 31 and 37 per cent. In contrast, the cotton fabric production in the powerloom sector has recorded a sustained increase of 26.63 per cent during this period (10 per cent sharp rise in 1989-90). The overall production in the handloom sector has recorded a marginal increase between 1985-86 and 1988-89 but declined by 4.6 per cent in 1989-90 and recovered only marginally in 1992-93. The powerloom sector's total production has been one of steady increase: its proportion has increased from 37.68 per cent in 1980-81 to 66.98 per cent in 1992-93.

Though fabric production statistics clearly establish the extent of decline of the mill sector due to the expansion of the cost-effective powerloom sector, which could also be a consequence of the mill owners' entry into and encouragement to the powerlooms, especially after the Bombay

Table 5. Export of Textiles

Item	Exports as Per Cent of the Total During 1992-93	1993-94	1994-95
Cotton yarn	24 00	25.54	28.26
Cotton fabric and made-ups (MM/PL)	54.74	53.87	52.64
Cotton fabric and made-ups (HL)	21.26	20.59	19.10
Total	100	100	100

Source: Export Promotion Councils and Commodity Boards, quoted in *Annual Report*, 1994-95, Ministry of Textiles, GOI, Appendix XIII, p 73.

Table 4: Rise in Cotton Yarn Prices

(*Rs per bundle of 4.5 kgs*)

Count	1984	1985	1986	1987	1990 January	1991 Pre-Budget	1991 Post-Budget	1993 December	1994 March	1995 January*
40s	115	115	120	215	215	250	295	280-290	400-450	505.00
60s	170	175	280	265	400	465	560	380-390	550-595	635-715
80s	–	–	240	325	550	560	675	600-650	730-740	850.00
100s	–	–	372	452	675	730	830	895.50	886.00	1030.50

Note: * A subsidy of Rs 15 per kilo is being allowed.

Sources: *Chirugu Patala Baruvu Batukulu: Chenata Sankshobham pai Oku Parishilana*, Guntur, March 1992, pp 6-7.
Andhra Jyoti (Telegu daily), April 15, 1994;
The data for January 1995 from 'Ninth Report on Yarn Crisis' (Presented on March 30, 1995), Parliamentary Standing Committee on Commerce (1994-95), Rajya Sabha, Annexure I, p 23.

textile strike in the 1980s. From these statistics it is not possible to estimate the extent of damage to the handlooms. But the widely held view that a substantial part of powerloom production is being marketed as handloom cloth by the proliferating bogus handloom co-operatives set up by powerloom owners to corner loan and market facilities available to the handloom co-operatives may account for the relative steadiness in the handloom production figures.

The conclusions that follow from the above analysis are summed up below.

(i) The massive increase in the total number of powerlooms and especially that of the cotton powerlooms should have logically led to the displacement of handlooms by six times. Instead, the handlooms census figures show a low decline by 1.67 times.

(ii) The decline of handlooms to the tune of 4.85 lakh between 1974 and 1987-88 and of course sudden dormancy forced during the crisis times should logically be reflected in the quantum of handloom production. The fabric production statistics (Table 2) for the period from 1980-81 to 1992-93 and 1993-94 (provisional) show the handloom share to be varying between 21 and 27 per cent in the total fabric production but in absolute terms the cotton handloom production between 1980-81 and 1993-94 has doubled. The total production in this sector has also recorded a two-fold increase from 2,680 million metres in 1980-81 to 5,851 million metres in 1993-94. All this in spite of the fact that during this period 4.85 lakh handlooms have been thrown out of production and the competition from powerlooms has been increasingly felt by the handlooms.

(iii) The yarn figures show the supply of hank yarn to have not only been far below the actual requirement of the handlooms but in fact to have recorded quite wide fluctuations with a downward tilt. Ironically enough, the production figures show wide variance with the hank yarn figures with the former being far higher than the yarn available.

Due to the incongruity or rather illogical variance between the number of handlooms, the quantum of cotton hank yarn availability and total cotton cloth produced, the official statistics not only become suspect but in fact strongly confirm the judgment of Jain that "the hands of the textile commissioner's organisation, which knowingly puts out fictitious estimates of production in the powerloom and handloom sectors are not clean" [Jain 1983: 1517]. The only way one could make sense of this is by stating what is by now a fairly well-established fact, that powerloom cloth has been shown as being produced in the handloom sector at different levels – through bogus co-operatives floated by the powerloom owners, and with official connivance through the manipulation of statistics.

IV
Handloom Crisis

The handloom industry in the last decade witnessed a crisis serious in terms of its intensity and expanse. The consequences of this were large-scale displacement of weavers, steady decline in handloom cloth production and of course severe hardships to the weavers in the old age group when they were pushed to starvation while the younger weavers resorted to occupational shift and migration for survival.

It would be improper to talk about this crisis in general terms for its impact has been differentially felt, determined by spatial, organisational and product-related factors. While the weavers in the centres producing colour, jarri, tie and dye, silk varieties and special high value sarees and export varieties could cope up with the crisis, in spite of the initial shocks, largely due to the relatively assured up-market, it is the weavers producing cheap varieties using low-count yarn who had to bear the brunt of the crisis. The most severe crises which received national attention occurred in 1988-89 and 1991.

Central to the crisis in the handloom industry is the scarcity and steep rise in market prices of cotton yarn. Though the 1985 textile policy promised to make special efforts "to ensure adequate availability of yarn and other materials to the handloom sector" implicitly at reasonable prices affordable by the weavers, that was not in fact to be the case as the 1988-89 and 1991 handloom crises, claiming 52 and 110 lives respectively, clearly demonstrated.

The Abid Hussain committee appointed in 1988 to review the progress of implementation of the 1985 textile policy in its report submitted in 1990 noted with concern [GOI 1990: iii]:

> We have identified certain critical problems that continue to plague the textile industry; many of them persist ***despite, rather than because of***, the 1985 policy. High and fluctuating prices of yarn imposed great hardship on handloom weavers who suffered as a consequence. (Emphasis added.)

Though, the Abid Hussain report refused to see the relationship between the shift brought about by the 1985 textile policy which identified the promotion of "export of cotton [and] yarn" as one of the priorities and the handloom crisis, it nevertheless did identify "high and fluctuating prices" of yarn as the cause of the crisis. Between 1985 and January 1990 the prices of yarn in 40s and 60s count used by majority of the weavers producing common varieties had increased by 86.95 per cent and 128.57 per cent respectively (Table 4). In contrast to the phenomenal rise of yarn prices, the market rates of these varieties have seen only a marginal increase, thereby rendering their production not only unprofitable but even uneconomical.

The crucial question thus is: why this steep rise in yarn prices? Part of the answer, according to the Hussain report itself, lies in the failure of the government to enforce the hank yarn obligation by the spinning mills

> At present spinning mills are requested [sic! it should be 'required'] to produce 50 per cent of their total marketable yarn output as hank yarn. The actual delivery of hank yarn amounts to about 40 per cent of total yarn produced This has raised two different kinds of problems. First, there are widespread complaints of diversion of hank yarn to powerlooms. Second, the demand for yarn by handlooms is for specific quantities and

Table 6 Handloom Crisis – Policy Response

Capital and Credit Support	Subsidies	Technology Training	Social Security	Legal and Fiscal
(1) Integrated handloom village Development scheme	Janata cloth scheme	Weavers service centre	Thift fund scheme	Handloom act 1985
(2) Loom to loomless weavers	Special rebates	IIHT	Group insurance scheme	Hank yarn obligation
(3) Handloom development centres	MDA	Modernisation of looms	Health package scheme	Excise exemption of hank yarn
(4) Workshed-cum-housing scheme	Silk yarn bank scheme		Margin money for destitute weavers	
(5) Project package scheme	yarn at mill prices			
(6) Loan for membership of co-operatives	Managerial subsidy			
(7) Credit support				

Sources: S R Khanna 'Strengthening India's Handloom Industry: A Case for Painless Adjustment' (monograph), p 48.
Compendium of Handloom Schemes, Development Commissioner for Handlooms, Ministry of Textiles, New Delhi (nd).

counts. Hence, there is often a mismatch between the kind of yarn required by handlooms and that which is supplied. The net result is that the mills feel aggrieved with what they consider is too high a hank yarn requirement, while handloom weavers often face difficulty in procuring adequate quantities of yarn for their requirements [GOI 1990:11].

What is pertinent to note here is that in contrast to the Hussain Committee's assertion about 40 per cent of total yarn production being delivered in hank yarn form, the available data for 1988-89 onwards clearly shows that the delivery of hank yarn was in the range of 22 to 24 per cent (Table 3). In addition, what is lost sight of is the steady increase in the export of yarn from 42.1 mn kgs in 1987-88 to 94.68 mn kgs in 1990-91. It may be noted that within these exports, the proportion of hank yarn in the 20s and 40s counts has constituted more than 64 per cent and has been increasing (*The Economic Times*, April 11, 1994).

Economic Reforms since 1991

The economic reforms initiated by the new Congress government at the centre in June 1991 furthered the liberalisation process at work since mid-1980s. One of the principal objectives of the economic reforms package, introduced after the severe balance of payments crisis experienced by the Indian economy in 1990-91, is to boost the foreign exchange reserves. Though it is not within the scope of this essay to go into a detailed discussion of the package, what is pertinent to the understanding of the survival crisis of the handloom weavers is the clearly perceptible attempt in the last five years to increase exports with a view to earn foreign exchange. Two important reforms that have a direct bearing on the yarn crisis or rather led to the escalation of the crisis are trade liberalisation and devaluation of the rupee to boost exports. As far as the textile industry, which contributes significantly to our exports, is concerned, these reforms seem to have encouraged an easy, rather less risky way of earning foreign exchange by exporters through cotton and yarn exports, while the export of value added products would involve trading and marketing skills and related risks which the easygoing parasitical exporters are apparently unwilling to take. The government, in its anxiety to somehow earn foreign exchange like a small-time dalal, has allowed freeplay to this lobby in the name of liberalisation.

Thus from mid-1991, we witness a desperate attempt to allow the export of yarn irrespective of the quantum of yarn production and the domestic requirement. Yarn export rose from 94.68 mn kgs in 1990-91 to 110.99 mn kgs in 1991-92 when yarn production as a matter of fact decreased from 1,510 mn kgs to 1,450 mn kgs. A matter of serious concern is that in these exports the proportion of hank yarn, most of it being in low counts, was 86.8 per cent (*The Economic Times*, April 11, 1994).[7] As a result hank yarn prices rose from 18 to 20.5 per cent. To be precise, while the price of 40s count rose by rupees 10 per kg the price rise of 60s and 80s counts was between Rs 21 and 25.50. While the periodic increase in yarn prices is within the experience of the weavers, whose adjustment to it, in the face of market unfriendliness (for handloom product price increase does not match yarn price increase), through a cut in their wages is a story of tenacity and instinct of an average weaver to survive with a bare minimum, a sudden and unexpected spurt in prices is something which pushes them beyond the limits of endurance. It is pertinent to note that the master weavers, producing more than three-fourths of handloom cloth, respond to such crises through a corresponding cut in the wages [Srinivasulu 1994]. As the weavers in Chirala and Mangalagiri narrate, in 1991 the yarn price hike was so high that the master-weavers found it beyond their capacity to continue cloth production. As a result, handloom production was thrown out of gear resulting in a loss of employment for a large number of weavers and in their being pushed to starvation and suicide. This is markedly so in centres with a large concentration of weavers, native and migrant, like Chirala and Mangalagiri. It is from here that a large number of starvation and suicide deaths were reported.[8]

V
Policy Response

It is generally suggested that the early years of transition towards economic liberalisation affect the poor and vulnerable social groups adversely, though once it gets stabilised the benefits would also percolate to them. The public policy intervention therefore becomes imperative to alleviate the social costs of transition. The IMF-World Bank prescription has also provided for civil society initiatives, especially through non-governmental organisations (NGOs) in addition to policy intervention. In the context of liberal democracies like India, the political management of liberalisation and economic reforms, given the attendent social costs, necessitates certain degree of accountability and responsiveness through policy initiatives to mitigate its negative consequences [Goetz and O'Brien 1995]. The role of the press in a liberal democratic system in focusing the issues and raising the political and social awareness and thereby bringing 'responsive' governance on to the political agenda, as the experience of the recent past with reference to the anti-arrack agitation and more specifically (and relevant to the present discussion) to the handloom crisis shows, is quite significant [Srinivasulu 1995].

In the context of liberalisation, for the above reasons, public policy intervention both through the continuation of certain previous policies and introduction of new policies, becomes imperative. With specific reference to the handloom sector, because of a serious survival crisis of a large number of weavers as a consequence of the liberalisation drive – the deregulation of the textile industry and decontrol of trade in yarn being two significant aspects of relevance here – public policy intervention, in principle, has become necessary. It is not possible to go into all the policies/schemes pertaining to the handloom sector here (Table 4) and we shall focus on those schemes that address certain crucial aspects of the crisis.

Yarn Supply Schemes

As discussed earlier, central to the handloom crisis is the sudden and unexpected spurt in the prices of hank yarn used in the handloom production. Though the NTP promised "to ensure adequate availability of yarn" to the handlooms at reasonable prices and intended to keep up this promise through the provision of hank yarn obligation by the spinning mills and by preventing its violation by them through its reconversion into cone yarn (used in the mechanised sector) and its diversion to the powerlooms, the handlooms crisis has clearly demonstrated the government's failure in this regard.

As a specific response to the handloom crisis, the government introduced the Mill Gate Price Scheme (MGPS) and Hank Yarn Price Subsidy Scheme (HYPSS). Under the MGPS while the yarn supply target was 10 mn kgs, the yarn actually supplied to the weavers during 1992-93 was 1.6 mn kgs during 1993-94 it was 4.94 mn kgs. The HYPSS provided for the supply of 20 mn kgs of hank yarn with a subsidy of Rs 15 per kg to the weavers in the co-operative sector. It must be noted that the fund of Rs. 30 crores allocated to this scheme was in fact carved out of the budgetary provision for the Janata Cloth Scheme (JCS). Even this scheme, in its implementation, failed to make yarn available to the distressed weavers, if the AP experience is any indication. According to Pragada Kotaiah (*The Hindu*, December 26, 1995) no yarn was supplied to the weavers in AP under this scheme. While the per annum requirement of hank yarn in the country is around 460 to 480 mn kgs, the yarn supply target under these two

schemes is a mere 5 per cent of the total requirement.

Loom Distribution

While the liberalisation regime on the one hand explicitly resorted to expenditure and subsidy cuts to different sectors like public health, education in the name of reducing fiscal deficit, it unhesitantly pronounced substantial subsidies for notionally irrelevant and practically useless schemes on the other hand. The scheme of providing loom to the loomless weavers, when the priority should have been for providing hank yarn, is a clear instance of irresponsible behaviour. This scheme, conceived by the ministry of textiles in consultation with the ministry of rural development in 1993, earmarked Rs 523.20 crore with a subsidy component of Rs. 130.80 crore from the IRDP phased over three years from 1993-94 with a target of 1.09 lakh looms per annum (*Compendium of Handloom Schemes*, p 23-44).

The basis for this scheme is the National Handloom Census conducted in 1987-88, according to which there were 3.27 lakh loomless weavers in the country. It is pertinent to note that in the last couple of decades there has been a steady but definite decline of the independent weaver system and also of the co-operatives. This decline has been largely due to the unequal competition from the powerloom sector and its relatively cheap and affordable cloth flooding the rural markets. The hike in raw material prices in contrast to the relative stagnation in the handloom product prices has increasingly tilted the economies of scale in favour of the powerloom sector. Unable to cope up with the adversity of the emerging scenario, the vulnerable independent weavers have either resorted to an occupational shift (especially in the younger age groups) or settled with the master-weavers as wage earners. Obviously this meant large-scale migration of the weavers to the major handloom centres. It is these uprooted (from their native villages) migrant weavers who account for most of the 3.27 loomless weavers. In other words, they have been rendered 'loomless' in the context of a survival crisis leading to the decline in the independent weaving sector.

The clue to the magnitude of migration and occupational shift among the weavers could be found in the Handloom Census itself – that is, in its discovery of 2.79 lakh idle looms in the country. In view of this reality, the introduction of a scheme to distribute looms can only be considered either as an act of madness or of wilful destruction of the handloom sector.

It would be innocent to imagine that the policy-makers are oblivious of the state of the handloom industry, as the following extract from a government order brings out clearly:

> The handloom census was done about six years ago. The ground realities might have materially changed since then. It is likely that many loomless weavers might have taken to some other vocations. It is necessary to ascertain the exact number of loomless weavers in each major weaver concentration, who need to be covered by the proposed package under the IRDP. This task may be entrusted to the block development officer or any other block level coordinating agency functioning at that level. The association of the field staff of the Directorate of Handlooms and the Industrial Department of the state governments should be *completed in about a month's time* and a list of all eligible loomless weavers, who are below the poverty line, drawn up for cent per cent coverage under IRDP. [GOI *nd*: 27-28, emphasis added.]

This package, in reality, would only be adding another 3.27 lakh looms to the 2.79 lakh idle looms as on 1987-88 and many more that could have been forced to be idle in the intervening years. Given this, no sensible weaver can be expected to show interest in possessing any loom without raw materials and as with most of the IRDP schemes, this scheme's fate is predetermined in its conception itself.

Handlooom Development Centres Scheme

Another scheme announced in September 1993 deserves to be examined both for its generous promise and a whopping cost of Rs 849.15 crore it involves. Under this scheme 3,000 Handloom Development Centres (HDCs) and 500 Quality Dyeing Units (QDUs) are to be set up with an assistance of Rs 27 lakh per QDC and Rs 7.83 lakh per QDU and phased over four years starting from 1993-94 and completed by the end of the Eigth Five-Year Plan. What is fantastic about this scheme is its promise to provide a complete package of assistance to the handloom weavers in an integrated and co-ordinated manner by "bringing 30 lakh weavers with 7.5 lakh looms in the co-operative fold so that the benefits of all the various schemes accruing to the handloom co-operative are available to them". Thus the weavers covered by HDCs would be provided with the raw materials, ie, yarn and dyes, training in improved dying and designing, and marketing of the production. [GOI *nd*: 1-22]

The pace at which this scheme has been implemented, as the figures for the first two years show, runs contrary to its lofty promise. While during 1993-94 only 267 HDCs and 66 QDUs were sanctioned at a cost of Rs 10 crore, during 1994-95 around 605 HDCs and 134 QDUs were sanctioned with Rs 40.18 crore. These figures are uniformly far below the targets set.[9] In AP, for instance, where during this period 80 HDCs and 36 QDUs with 6.61 crore were sanctioned these centres have yet to start functioning. If the experience of Andhra, where periodic crisis received immediate attention, is any indication one can very well imagine the situation in other states.

Of more serious concern than the lackadaisical implementation of the schemes is the bureaucratic prescription of ill-conceived schemes involving massive public funds that besides not addressing the key problems may even cause further damage. Thus when the solution to the handloom crisis is simple and straight, that is making yarn in necessary counts available in required quantities at reasonable prices to the handloom weavers, the government has come up with irrelevant policies that seek to provide looms to the weavers and promise marketing of production by weavers in HDCs. One even shudders to imagine the only possible consequence of this kind of prescription, which is to snap whatever linkages with the local market the handloom sector may have retained despite the threatening inundation by the powerlooms.

When the impasse-ridden Reservation Act (discussed in Section II) and the inconsequential attempts at yarn supply are read with the high priority HDC and loom schemes, the real intent of the policy intervention with respect to the handloom sector becomes suspect.

VI
Concluding Remarks

In this essay an attempt is made to analyse the context, text and impact of the 1985 Textile Policy on the handloom sector. In contrast to the dominant functionalist perspective in the field of policy study, which basically reduces policy analysis to policy evaluation and/or impact assessment, in this essay the attempt has been to view the NTP in the larger context of the economic policy shift to liberalisation brought about during Rajiv Gandhi's tenure. The contextual reading of the policy highlights the fact that in the chequered course of liberalisation of the Indian economy, traced to the mid-1980s, it is with regard to the sectors of the economic activity where the resistance to the new economic policies is weak that the governments sought to push the reforms further.

The study of the NTP clearly shows the increasing gap between the Five-Year Plan priorities and specific policy priorities, thereby strengthening the view that planning may become irrelevant in the context of liberalisation. Thus while the Seventh Plan

identified employment generation as the foremost objective of economic planning, the NTP in contrast by treating productivity and efficiency as the priority concerns sought to create a level playing field by removing hitherto existing restrictions on the mills and powerlooms, meant to protect the large-scale employment -- actual and potential – in the vulnerable handloom sector.

In the context of the liberal dispensation of the regime, with productivity, efficiency and market competitiveness being its important catch phrases, the protection and policy package to the handloom sector in a sense becomes a contradiction in terms. Textile being a major sector of industry and the powerful mill and powerloom lobbies constituting a major faction within the ruling class coalition, and the pro-liberalisation elite predominating in policy-making bodies, the major hurdle at the policy formulation and implementation level for the powerful textile lobby is largely removed. If the NTP is evidence of this influence at the policy formulation level, whatever safeguards are provided to the handlooms (apparently as a matter of habit) are sought to be diluted through indifference, delay and inaction. The series of hurdles – legal and other – and the inordinate delay in creating an implementing mechanism for the execution of the Handloom Reservation Act clearly illustrates this. In contrast, the artisanal communities engaged in handloom weaving, in spite of their numerical strength, could show only a limited capability for protest and resistance and they fail to be heard and their limited organisation fails to threaten the electoral prospects of the governing elite.[9] The ineffective policy initiative and disinterestedness and indifference to the implementation of the existing policies are largely due to the disorganised nature of the handloom industry.

Notes

[I am very grateful to L C Jain for his encouragement and generous support, and also for his encouraging comments on this paper. I am thankful to S Pandari and K J Rama Rao for helpful discussions and to Jyothi and Uttam Kumar for research help]

1 'Handloom Census 1987-88', quoted in the Abid Hussain Committee report (this excludes north-east India) [Government of India 1990: 13].

2 All India Handloom Weavers Convention (Open Session), welcome speech by Rahmatulla Ansari, February 20, 1993, p 3.

3 Since the launching of the new economic reforms in 1991, the closure of the mills got a further fillip: between 1991-92 and 1993-94, 385 mills were closed and as a result 5.45 lakh employees were affected (*Annual Report 1994-95*, Appendix-IX, p 69).

4 An important study conducted subsequently for the Planning Commission further assessed that in the mill and powerloom sectors, while the capital required per unit cloth output is highest, the employment generated is lowest; in the case of handlooms the converse is found to be true – the capital required being lowest and employment generated highest [Anand 1978-79].

5 'Report of the Working Group on Textiles for the Plan 1978-83', Ministry of Industry, 1979, cited in Jain (1983 1518).

6 There is a proliferation of bogus co-operatives floated by master-weavers both in the handloom as well as powerloom sectors to corner the yarn, credit and marketing facilities available to the co-operative sector. It is these co-operatives, controlled entirely by a few families who resort to what seems to be a widely prevalent practice of marketing powerloom cloth as handloom cloth For a detailed account of the phenomenon of bogus co-operatives in Chittoor district in Andhra Pradesh, see 'Study of the Handloom Weavers Co-operative Societies in Chittoor District', prepared by Rural Institute of Social Education (RISE), Tirupati

7 In spite of severe yarn crisis and protests, exports of low counts used in the handlooms continued almost uninterrupted As per the latest yarn export data, in 1995 while the total yarn export was 243.87 thousand tonnes, the share of yarn in the 1-40s count was as much as 203.42 thousand tonnes (Texprocil).

8 For a detailed account of the suicides and starvation deaths among the weavers in 1991, see *Frontline*, December 6, 1991 and APCLC report (1992)

9 In contrast the fishing community has demonstrated a consistent organised resistance to the deep-sea fishing policy under the leadership of the National Fishworkers Forum and through the National Fisheries Action Committee (NFAC) and could succeed in forcing the government to review the policy allowing joint ventures in this sector. For details, John Kurian, 'Impact of Joint Ventures on Fish Economy', *EPW*, February 11, 1995 and K M Shajahan, 'Deep Sea Fishing Policy. A Critique', *EPW*, February 3, 1996.

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Interpreting Madhya Pradesh Voting Patterns

Christophe Jaffrelot

IN his comments on my article on the Madhya Pradesh assembly elections of 1993 ('Madhya Pradesh: Setback to BJP', *EPW*, January 13), Rahul uses strong words such as 'unscholarly' ('MP Assembly Elections, 1993', *EPW*, April 6). He begins by disagreeing with the way I divide Madhya Pradesh into political regions, something one has to do in order to identify swing-zones as he himself emphasises. For my part, I rely by and large on the traditional sub-division into five regions: on the one hand, Chhattisgarh and Mahakoshal (which were part of the Central Provinces of British India before 1947), and on the other, Madhya Bharat, Vindhya Pradesh and Bhopal (which are made up of former princedoms combined into three separate states shortly after independence and merged in 1956 in the new Madhya Pradesh).

In a more recent article, Rahul argues that this division "reflects the grouping of princely states into *temporary administrative* units prior to the formation of Madhya Pradesh in 1956" (Rahul, 'The Meek Lay Claim to Their Inheritance: Portents of the 1996 Election Results from Madhya Pradesh', *EPW*, June 29, p 1685; emphasis mine). But this is not so simple: well before 1947 these five regions had acquired quite different personalities, depending primarily on whether they belonged to British India or to one of the princely states. The political culture evolved in the former was radically different from the conservative atmosphere typical of the latter. More importantly, many princely families continued to play an important role in their former territories after independence, sometimes up to the present day. This is something one has to take into account in drawing a *political* map of Madhya Pradesh. Hence my strong reservations about the way Rahul divides Madhya Pradesh into eight regions: Chambal, Bundelkhand, Gondwana, Chhattisgarh, Mahakoshal, Bhilistan, Malwa and Bhopal. He mixes together districts which were part of British India and others which belonged to princely states. What is the political rationale, for instance, behind the inclusion of Sagar – a district which had been part of the Central Provinces from 1861 onwards – in Bundelkhand, where former princely states are in a majority? It seems that Rahul is interested in shaping geographical, socio-economic and/or socio-cultural regions rather than political regions. This is particularly clear in the case of Gondwana, the main Gond-inhabited area, which he constructs by putting together districts of 'traditional' Chhattisgarh, Vindhya Pradesh and Mahakoshal. But is it of any use for analysing political processes such as elections? He himself recognises that "there have been attempts by the Gonds to organise along ethnic lines but due to a large absorption of the Gond intelligentsia into the government bureaucracy these attempts have not really succeeded so far" (p 1689). Rahul's map is all the more strange as he himself recurrently emphasises the role of historical and political factors. He points out the role of princes such as the Scindias and the Rewa family in their respective areas (p 1691). In the same perspective, he explains that "the politicians from Chhattisgarh have been traditionally dominant in state politics because of their experience of parliamentary democracy from the British times..." (p 1690).

In a way, I find the 'traditional' map of Madhya Pradesh vindicated by this kind of argument and prefer to merely amend it by dividing Madhya Pradesh into two parts, the Gwalior area, where the Scindias still exert a strong influence, and Malwa. (For other minor amendments, the interested reader can look at my book, *The Hindu Nationalist Movement and Indian Politics, 1925 to the 1990s: Strategies of Ideology Building, Implantation and Mobilisation with Special Reference to Central India*, Viking, Delhi, 1996.)

Rahul's second criticism concerns my analysis of the Hindu nationalist 'welfarist strategy'. He chooses to ignore its tactical dimension and to ironise with respect to the contradiction between this strategy and Patwa's anti-poor policy (on which I dwell in my article). In fact, one has to differentiate the actions of the BJP government in 1990-92 from the grass roots level work of the RSS and certain of its offshoots, such as the Vanavasi Kalyan Ashram which has entered tribal areas and propagates Hindu nationalist ideas under the garb of social work. Rahul implicitly admits this in his subsequent article: "The BJP ably aided by the RSS has worked tirelessly to woo these sections [the tribals, the dalits and the OBCs] and succeeded in forming a committed cadre even in the remote Naxalite controlled areas of Bastar" (p 1690). He himself differentiates the BJP's activities from the work of other organisations of the 'Sangh parivar' when he writes: "The BJP could emerge as a force precisely because the RSS systematically began cultivating the OBCs and later dalits and tribals to capitalise on the resentment among these sections at the policies being pursued by the INC" (p 1692).

In his comment on my paper, Rahul is highly critical of the fact that I paid little attention to the Chhattisgarh Mukti Morcha and other organisations which "make the non-party political process in MP the most vibrant one in the country in terms of mass base, militancy and the formulation of alternatives to the prevailing forms of development and governance" (p 908). But in his article, he himself points to the failure of one of the CMM candidates, Janaklal Thakur, and concludes: "His predicament underlines the marginality in electoral terms of the people fighting for an alternative development model as the basis of a more participative policy in the state. Four other candidates of the CMM fared even worse" (p 1690).

Thirdly, Rahul says that I naively overestimated the unity of the Congress at the time of the 1993 elections: "The Congress is definitely not the well-organised party that CJ would have us believe it is..." (p 907).

I certainly did not try to give this impression but merely indicated that factional fights were less in evidence within the Congress on this occasion, reporting that 'leaders made peace', that we saw during one of the pre-election meetings "the beginning of a more harmonious relationship" and that "on balance things went rather smoothly this time" (p 132).

In effect Rahul's later article contradicts some of his earlier arguments in his comment on my article and supports some of mine But this article also includes a number of questionable statements such as, "the Scindias being Marathas are much more civilised compared to the descendants of the Chandelas of Khajurao fame.. " (p 1688).

While Rahul rightly argues that the representation of the OBCs among the MPs of Madhya Pradesh increases, this analysis is not fully supported by the accompanying table which utilises a hodgepodge of categories such as Muslims, scheduled castes, scheduled tribes, OBCs, upper castes and women. The implication is that women do not belong to any caste or religion. In fact, among the five female MPs elected in 1996, three belong to the upper castes, one to the scheduled tribes and only one to the OBCs.

The mistake Rahul points out in my table (p 130) is regretted: 34 is not the number of assembly seats in Malwa but the number of seats won by the BJP in this area, out of 63.

Quantitative, Qualitative and Postmodern Epistemology

Achin Chakraborty

IN their article 'Quantitative and Qualitative Methods of Social Science Enquiry' (*EPW*, July 27), Parthasarathi Shome, Carlos J Moreno and Kavita Rao discuss the possibility of "a blend of the quantitative and qualitative approaches for comprehending and predicting human behaviour". Their principal suggestion is that "a qualitative dimension has to be added to economic enquiry". This is unassailable as far as it goes. I fail to see, however, how they can possibly make this prescription on the basis of their epistemological invocation. Although they devote a subsection to 'Knowledge and Postmodernism', ostensibly to "illuminate ourselves – economists – of the views of researchers in other social sciences on epistemology and the nature of knowledge", it is not clear to me how the discussion in this subsection stands in relation to the particular empiricist epistemology the authors put forward.

To begin with, Shome and others are mistaken in emphasising that criticisms and counter-criticisms of the two approaches (what they call 'quantitative' and 'qualitative') bear traces of "comparisons and contrasts between the so-called modern and postmodern approaches". What I wish to emphasise is that there is no *necessary* connection between the qualitative approach in general or the ethnographic approach in particular and postmodernist epistemologies. While the ethnographic approach can be made consistent with postmodernism, it can be shown to be equally consistent with an empiricist epistemology. In what follows, I make an attempt to relate the methodological prescription of Shome et al to postmodernist epistemological positions as I understand them.

Let us start from the classical question of philosophy 'how do we know what we know?' Attempts to answer this question throw up different epistemological positions. On reading the article under discussion I am under the impression that the authors posit the difference between the qualitative and quantitative approaches as something fundamental in nature from the epistemological point of view. I wish to make clear my strong difference with them on this central point of their article. Of course, there could be numerous ways of knowing, but, from the philosophical standpoint, a meaningful position might be one which would designate the two most important of the alternative ways as empiricism and rationalism. Needless to say, both come under the modernist epistemological tradition. It seems to me that Shome and others' methodological prescription falls very much in line with the empiricist epistemology.

By the empiricist epistemology we mean the understanding of theory as a more or less adequate representation of an independent 'reality'. This reality is presumed to be more or less capable of revealing its structure (or essence) through the medium of sensory observation or 'experience'. This assumption is implicit throughout the article. All the arguments Shome et al put forward mean to reveal the inadequacy of the quantitative approach alone in representing the reality. But they nonetheless endorse the empiricist position of the possibility of representing the reality. In presenting what I would call a 'sceptical empiricist' position, one should not confuse this position with postmodernist epistemologies. If a sceptical empiricist position is sought to be informed by postmodernism, the former will definitely be shaken to its roots and there is no way to reconcile it with the latter. Shome et al, I am afraid, have not really explored the implications of invocation of a postmodernist epistemology.

I wind up with a final comment. Shome et al in their endeavour to enlighten economists decide to devote one or two paragraphs to each of the following: Adorno, Vasco on Habermas, Foucault, Lyotard, Wierzbicka, and so on, and thereby com-pletely neglect the literature that has recently come up to deal with the connection between economics and postmodernist epistemologies. For the last couple of years, several authors have been pursuing the alternative paths created by postmodern approaches with great vigour and, in the process, have been expanding the horizon of economic enquiry much beyond stale repetitions of logical positivism. This is evident from such contributions as McCloskey (1985), Klamer (1984), Samuels (1990), Amariglio (1990), Ruccio (1991), Mirowski (1991) and others. It would have been better had Shome et al taken note of this growing literature before they took up the task of enlightening fellow economists.

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25 Months	16 5	16.61	16 73	17.08	17.81	7,035	19.53
30 Months	17.0	17.12	17 24	17.61	18.39	7,625	21.00
36 Months	17 5	17.63	17 76	18 15	18.97	8,420	22 80
48 Months	17 5	17 63	17 76	18.15	18.97	10.018	25.09
60 Months	17 5	17 63	17.76	18 15	18.97	11,919	27.68

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Urban Poor as a 'Problem'

In the years between the two world wars, the large urban centres of Uttar Pradesh witnessed unprecedented migration of rural labourers and poorer cultivators. The migration brought into being a large underclass of the poor in the towns, swelling the ranks of the labourers and petty traders already there. The urban propertied classes perceived the poor not only as a potential source of urban disorder and crime, but increasingly also as a threat to their own health and well-being. This precipitated major changes in the policies of the urban local bodies manned by municipal councillors elected by propertied rate-payers or nominated by the government. The policies contributed significantly to the creation of the 'problem' of the urban poor, both materially by intensifying the scarcity of housing for them or impairing their sources of livelihood and discursively by categorising them as a distinct social group defined by their undesirable habits and practices. 3245

Changes in Tastes and Food Demand

Food demand in India has been characterised by changing preferences. An analysis of state-level demand based on the linear expenditure system suggests that consumers are switching away from cereals towards more expensive milk, poultry and meat products. 3265

Development Policies: Lessons from Vietnam

Vietnam has recorded remarkably high growth rates in recent years while ensuring equity and national predominance by adopting policies that balance the roles of the party, the state and the private sector. An overview of the most important political developments in Vietnam since 1986 leads to the conclusion that the current changes will help Hanoi defend its sovereignty, not only in economic, but also in cultural and political terms. It seems likely that Vietnam will develop in tandem with China but with a lesser role for the party in state affairs. 3255

Bogus Debate

The debate on biotechnology and bioethics on Indian platforms thrives on rhetoric and metaphors directly lifted from the West. India cannot evaluate genetics or any other science in such a manner; it will have to create its own paradigms answering its social needs. 3231

High Cost of Reform

The financial sector reforms introduced as part of economic liberalisation have done the economy more harm than good. The initiatives now being taken by the United Front government appear to appreciate this point. 3237

Even as company finance studies clearly show how mounting interest costs are having a severe impact on corporate performance, all aspects of financial sector liberalisation preclude any significant lowering of interest rates by banks and financial institutions. 3218

Dispossessing Tribals

Government policies, ostensibly aimed at protecting the rights of tribals to their livelihood, in fact dispossess them of their access to local resources. 3227

The state marketing agency in the Kandhamal division of Orissa has stopped buying and marketing plates made from 'siali' leaves, a minor forest produce and the tribals' only means of livelihood. 3230

Backward Maharashtra

Maharashtra's backward regions – Vidarbha, Marathwada and parts of the Konkan – have suffered not only because of sheer neglect, but also because the growth model of Western Maharashtra is being foisted on regions with altogether different agroclimatic and socio-political features. 3233

From Tashkent

While regional compulsions brought together six Turko-lingual states to sign a declaration of solidarity and co-operation at Tashkent, much depends on how they can reconcile their differences arising out of their very different economic histories. 3235

Crisis of Narmada

WE the undersigned wish to express our deep concern over the state of the Narmada. The river has been at the centre of a controversy for more than three decades with reference to the gigantic dams being constructed on it. These dams were conceived in an era when India's democracy was in a nascent stage. The right of ordinary men and women to participate in the making of decisions, which were going to affect their lives, had not yet become an acknowledged ideal. Also, the violation of human rights and the risk of ecological destruction had not become matters of public anxiety.

This original context of the vision of Narmada's development has greatly changed today. The human and ecological consequences of big dams stand revealed in many parts of the world. Construction of big dams has been banned in certain countries; in some cases a dam already under way has been abandoned.

In the context of Sardar Sarovar, the Narmada is facing a terrible crisis today. Its personality as a river is under an unprecedented threat. The life-sustaining capacity it has had for thousands of years will be radically curbed, and in some parts decimated, as a result of the topographic transformation of its valley that the Sardar Sarovar dam will induce. The life it nurtures includes that of lakhs of human beings. They have inhabited the valley since ancient times, giving rise to strong cultural traditions and a sense of identity.

As it happens, these people are supposed to enjoy special rights in India's democratic order as constituted by law, having been designated as tribal people. The scale on which the Sardar Sarovar will displace them and other communities is so huge that no amount of planned rehabilitation can prove adequate and just. The rehabilitation that has so far been undertaken amply shows the perversity inherent in the idea.

Apart from the damage that the Sardar Sarovar will do to the natural environment and human communities, the dam will also destroy a precious source of archaeological study into India's pre-historic past. We have taken note of the appeal made in this context by the association for the study of history and archaeology earlier this year.

In our judgment, limited knowledge and vision should not be allowed to justify the inertia that decisions once made necessarily cause in public policy. A vibrant democracy depends on the willingness of those in authority to take a second look. There is an urgent need to bring the Sardar Sarovar project under a comprehensive second look. A wide-ranging environmental study, assumed to have been done but actually overdue, must form a part of the wider review we are suggesting. Apart from the study of potential seismological effects and the health hazards that the reservoir is certain to cause, the review must probe the cultural, psychological and economic consequences which the project might bring for lakhs of residents of the Narmada valley and the nation as a whole. The experience of rehabilitation work undertaken so far should also be evaluated with the participation of the displaced people in the Sardar Sarovar and the Bargi regions of the Narmada.

We feel that the stay on further construction of the Sardar Sarovar dam granted by the Supreme Court about one and a half years ago provides a highly reasonable opportunity to the government for initiating a comprehensive review. We also hope that the honourable court will visit the actual site of the Sardar Sarovar project before taking a decision on the public interest case pending before it.

Sonal Mansingh, Manjit Bawa, Romila Thapar, Sudhir Kakar, Krishen Khanna, Habib Tanvir, Geeta Kapur, Shiv Visvanathan, Krishna Sobti, Ramgopal Bajaj, Rajendra Yadav, Krishna Kumar and 50 others

New Delhi

Constitution of Finance Commissions

VINOD VYASULU'S contention ('Finance Commission in a Federal Set-Up', October 5, p 2719-21) that the president need not be bound by the advice of the council of ministers (Article 74) while acting under Article 280 appears somewhat misleading. As is evident under our constitutional dispensation, the position of our president is like that of the king of England, i e, he is a nominal head of government and though the executive powers of the union are vested in him (Article 53) these powers are to be exercised in accordance with the provision (Article 74) of the Constitution.

Yet the debate that Vyasulu initiates regarding the selection procedure for constituting the Finance Commission cannot be regarded as unwarranted, especially when the awards of the FC and the transfer of Plan Funds benefit/affect states. The big question is how to select members of FC. How are the states to be given a meaningful representation in the FC to safeguard their interests? One way could be what the Expert Committee on the Financial Provisions of the Constitution suggested. It said: "While we would not lay down any condition in the statute as to how these members should be selected, we recommend that two should be selected from a panel of nominees of Unit government and two from a panel of nominees of central government, the chairman being selected by the president himself."

But this is all about the composition of FC. It does not provide any guidance about the actual procedure of selection. Under Article 280(2) parliament can determine the manner in which members shall be selected and, to determine the manner, parliament did enact the Finance Commission (Misc) Act 1951 which is however found not specifying any procedure for selection of members. This however provides us an option of resorting to a supportive enactment under Article 280(2) and removing the insufficiencies of the Act of 1951. This does not necessitate a constitutional amendment nor expecting our president to act as a free agent which is contradictory to spirit and provisions of the Constitution and only initiates a meaningless debate.

DEV ATHAWALE

Akola

ECONOMIC AND POLITICAL WEEKLY

Ninth Plan: Marketist Dilemmas

THE United Front government has one more self-created problem on its hands: that of finding the notional resources required for a Ninth Plan in the making. The yet-confidential draft Approach to the Plan has already run into a controversy involving different arms of the government. With the prime minister having directed the Planning Commission to set itself a 7 per cent per annum growth target, the Commission has estimated the required investment rate to average 29.6 per cent of GDP in the Ninth Plan compared with just 25 per cent in the Eighth Plan. Further, budgetary support for the Plan has been placed at Rs 3,75,000 crore.

It is the latter figure which has ostensibly provoked the finance ministry into declaring that the proposed Plan is overambitious. Given its own preference for IMF-style fiscal stabilisation, which involves tax cuts on the one hand and a reduction in the fiscal deficit to 4 per cent of GDP on the other, the finance ministry sees the budgetary support target as being unrealisable. However, given its claim made in the *Economic Survey 1995-96* and the *Update* on that survey issued prior to the 1996-97 Budget, that the economy is fundamentally sound and poised for take-off, it cannot but go along with the 7 per cent growth figure. The Finance Ministry would therefore like the Planning Commission to emphasise the belief that market-induced efficiency would deliver more output from a given volume of investment and that liberalisation would stimulate the private sector into providing the savings and undertaking the investment required by the growth target. It is not the growth rate or the required resources that it demurs about, but the share of such resources that are expected to be provided by the exchequer.

Planners having to make defensible projections can hardly sell such hype. Therefore the Planning Commission has put much of the saving and investment burden on the public sector. Under the 7 per cent scenario, the Planning Commission expects that the domestic saving rate would average 27.2 per cent of GDP in the Ninth Plan compared with 23.7 per cent in the Eighth Plan and that access to foreign saving would rise from 1.3 per cent of GDP to 2.4 per cent. The rise in domestic saving is to be realised through a sharp reduction in government dissaving from –1.9 per cent of GDP to –0.2 per cent, a rise in public enterprise saving from 3.5 per cent of GDP to 4 per cent, a rise in the savings of the corporate sector from 3.7 per cent of GDP to 4.5 per cent and a rise in the household saving rate from 18.4 to 18.9 per cent of GDP. Since the job of raising public saving or reducing government dissaving is handled by the finance ministry, the Commission has in essence placed the difficult task of squaring a marketist-cum-monetarist ideology and a high growth target in the finance ministry's court.

The Commission provides a defence for this aspect of its exercise, which is in keeping with marketist requirements. In its view a greater role for the market does not imply a smaller role for the state, which must 'facilitate' the autonomous, market-driven process of growth with supportive investments and the limited intervention needed to deal with 'market failure'. Since "market failure is acute" in sectors such as agriculture, infrastructure, the social sectors and technology, public expenditure must remain high if growth is to occur and a semblance of equity is to be ensured.

This 'strategy' of making the state and the market work in tandem, however, has its fair share of problems. First, the Planning Commission's estimates of the quantum of resources required for such a strategy appear to be excessively optimistic. The incremental capital-output ratio (ICOR) on which these estimates have been arrived at is identical to that which, according to the Commission, prevailed in the Eighth Plan, viz, 4.2 per cent. That calculation assumed growth in the current year to be 6.6 per cent and that in the Eighth Plan period (1992-97) to be 5.9 per cent. Present trends indicate that actual growth in 1996-97 will be much lower than the assumed 6.6 per cent. In any case, since 1991-92 recorded a structural adjustment-induced fall in the rate of growth of output, its use as base year would exaggerate growth trends and therefore bias the estimated ICOR downwards. Thus if we use the available firm estimates of output and investment for the quinquennium 1991-96, the ICOR works out to be 5.3 per cent. This not only points to a post-reform increase in the ICOR, when compared to the average figures of 3.9 and 3.8 per cent which prevailed during 1981-86 and 1986-91, but also to a much higher resource requirement for the Ninth Plan than estimated by the Planning Commission. As a corollary, even the 2 per cent rise in government saving projected by the Planning Commission would prove inadequate for the state to play its role.

Second, given the finance ministry's commitment to low tax rates even the 2 per cent public saving figure can be ensured only with a substantial reduction in current expenditure, which would inevitably involve cuts in social sector expenditure. This implies that the 7 per cent growth scenario would be associated with lower social sector spending during the Plan period, which makes nonsense of the Planning Commission's "growth with equity" slogan as well as the many promises which the United Front government has made in its Common Minimum Programme.

Finally, to finance the public sector investment estimated in the 7 per cent scenario the Planning Commission takes the public sector borrowing requirement during the Ninth Plan to remain at the Eighth Plan level. While this goes contrary to the finance ministry's commitment to a reduction in the fiscal deficit, the Planning Commission does not question the validity of that obsession with the fiscal deficit.

Thus, the government's approach of attempting to promise higher growth and more equity than its predecessor, while persisting with the marketist and monetarist legacies left by the previous regime is fundamentally self-contradictory. The marketist dilemmas being faced by the finance ministry and the Planning Commission are mere symptoms of that deeper malaise. By choosing to skirt that issue, the Commission has reduced the Approach document to a padded exercise in middle-school arithmetic.

ARMED FORCES

Mounting Pressure

ANY sign of thaw in relations with China or Pakistan immediately alarms the Indian jingoist politicians and the hawks in the army. Both have developed stakes in the continuation of the policy of brinkmanship.

The recent visit of the Chinese president, Jiang Zemyn, to India and the agreement arrived at by the two governments to phase out troops from their respective borders have been generally welcomed by all political parties and people from different walks of life, except the Sangh parivar and the serving and retired army top brass. BJP leader Atal Behari Vajpayee, while expressing his misgivings about Chinese intentions, has chosen this moment to urge the government to tone up the country's defences. At the same time, the army generals are pressing the centre to boost military resources. What is the purpose behind this well-orchestrated campaign demanding defence preparedness which is being mounted simulateneously by the BJP and the army?

For all practical purposes, the Line of Actual Control has been accepted as a *fait accompli* over all these years by both India and China. No one in his senses would ever think of engaging in a misadventure to recover the territory 'lost' to China in 1962. Leaders of the Indian socialist parties, as well as those from the non-BJP Right (the erstwhile Swatantra Party for example), who were the most vociferous immediately after 1962, in demanding a fight to the finish to win back that territory, have veered round to acceptance of the reality and are seldom heard swearing by that famous resolution adopted by the Indian parliament which vowed to recover that piece of land where no leaf of grass grew. Perhaps, reason has dawned upon these politicians at last. Instead of resurrecting the ghost of a misadventure, they should turn their attention to all the far more important unredeemed vows that the Indian parliament had taken in the past – to remove hunger, to provide potable water and homes to the poor, to eradicate illiteracy – which surely deserve more urgent attention than the perceived military threat from China (an issue which for the last few decades had become an abstruse topic for academic debates among defence experts, army generals, newspaper editors and politicians). Why are the army generals and certain sections of Indian politicians keen on turning this into a live issue?

For the Indian army, it is a matter of redeeming its macho image lost in the Sino-Indian war in 1962. Since it cannot take on China's superior military might, the only avenue left for it is to engage in low-intensity warfare with Pakistan, its militarily inferior neighbour. This suits the Pakistani army also – so that it can continue to claim larger and larger defence outlays – all in the name of defending Pakistan against India. The increasing defence budget in Pakistan takes care of the perks of the pampered army top brass, as well as the endless race to acquire armaments from the west that satisfies the bloated egos of the army chiefs there – and swells the coffers of the military-industrial complex of the west which sells them the armaments (which need to be replaced or upgraded every year or so, thus leading to more expensive purchases).

The Indian counterparts of the Pakistani army generals have started behaving in the same way. At a seminar in Delhi on national security, held to synchronise with Jiang Zemyn's visit, the Indian army chief, General Shankar Roy Chowdhury, made a scathing attack on the Indian government for "a decade of inadequate defence planning and finances" and then went on to justify the demand for a continuing expansion of defence expenditure by coming up with this curious thesis. "Accidents of geography have located India in an unquiet neighbourhood... we are daily faced with warfare ranging from low technology and low intensity to high technology and high intensity..." The image that is being built up is that of an India that is permanently besieged because of 'accidents of geography' – a thesis that rules out political possibilities (like the recent Sino-Indian agreement on troops reduction) that can be made to prevail over 'geographical accidents'

Significantly, soon after this seminar which was held on November 28, defence minister Mulayam Singh Yadav, announced at the National Defence Academy at Khadakwasla, near Pune, on November 30, that the defence budget would be revised so that more money was available to the armed forces and the Russian-made 'Sukhoi-30 MK multi-role aircraft' – the latest darling of the Indian Air Force – would arrive at their doorsteps, along with Russian submarines, self-propelled guns and other defence hardware. Judging by the way the defence ministry is giving way to pressures from the army generals, we may not be too far away from a Pakistan-like situation with the army virtually pulling the strings from behind a civilian government.

CONGRESS PARTY

Towards a Show-Down

THE results of elections to the Congress Parliamentary Party(CPP) executive bring out the growing marginalisation of Narasimha Rao in the party. Out of 16 seats for which elections were held, 10 are believed to have gone in favour of the anti-Rao lobby. These results, coming in wake of a series of steps taken by the new Congress president, Sitaram Kesri, to whittle down Rao's hold over the party structure, are sure to intensify the pressure on Rao to quit the CPP leadership.

Over the past month, Kesri has been busy reorganising the party so as to pave the way for his election as the Congress president in March next year. To achieve his goal, Kesri has resorted to a three-pronged strategy. First, he has reinducted all those leaders who were forced out of the party for challenging Rao's leadership. Prominent among them are Madhavrao Scindia, Kamalnath, K Bangarappa and Congress(T) leaders whose re-entry will add to the tally of the party's MPs. Secondly, Kesri has been dislodging party office-bearers who are believed to be loyal to Rao. In a span of three days, Kesri axed the Youth Congress chief Maninderjit Singh Bitta, and three AICC general secretaries, B P Maurya, Janardhan Poojary and Devendra Dwivedi. Besides filling up these vacancies with his men, Kesri has been watchful to not eject office-holders like Pranab Mukherjee, Sudhakarrao Naik, Jeetendra Prasada and Vithalrao Gadgil who have shown themselves to be pliant and capable of changing sides. Lastly, as a step to revamp the party image after it has taken a serious beating when many of its top leaders were found to be implicated in various questionable financial dealings, Kesri nominated the former 'untainted' finance minister, Manmohan Singh, to the Congress Working Committee. More recently, he has expelled Sukhram. Moreover, Kesri is known to have plans to change the heads of four frontal organisations and nine party cells and pradesh and district committees. Already he has removed Ambika Soni and appointed Santokh Singh Randhawa as the PCC chief for Punjab.

Despite this massive restructuring aimed at isolating Rao, it is doubtful that Rao will submit easily. If Rao's tenacity in holding on to his position as party president is anything to go by, removing him from the leadership of the Congress Parliamentary Party(CPP) is not going to be a cakewalk. It may be recalled that Rao ultimately decided to step down from the party presidentship only when the legal cases implicating him in shady transactions started piling up. Now that he has received bail in all the three cases in which he stood accused, he is not ready to forgo his CPP leadership without, as required by the party rules, a two-thirds majority voting against him. Kesri chose instead to enter into a last-minute compromise with Rao over the election of the CPP office-bearers, and thus allowing Rao some breathing space. Further, Rao claims to have the solid backing of MPs from Andhra Pradesh, Orissa and the north-east who together form the bulk of the Congress MPs. It was not for nothing that Rao, immediately on being granted bail, made a tour of Andhra Pradesh and Orissa before the beginning of the winter session of parliament. The Congress may have rapidly shed its skin under the presidentship of Kesri, but it will need a showdown before it disposes of the burden of Rao.

'SATI MELA'

Dangerous Trends

OBSCURANTIST and oppressive religious enclaves are emerging in parts of India which can rival those spots in the Islamic world where obnoxious religious practices are imposed by the clergy. If in Afghanistan, the ruling Taliban stones to death any woman suspected of adultery, in Rajasthan devotees of Rani Sati would have widows mount the funeral pyres of their husbands to prove their chastity and in West Bengal Santhal tribals lynch their women on suspicion of witchcraft.

What is worse in India is that a supposedly secular state, which is committed to modernisation, acquiesces in the revival of barbaric customs in the name of religion, to which sometimes even the judiciary seems to lend legitimacy. In the case of the latest 'Chandi Mahayagna' near the Rani Sati temple at Jhunjhunu, which culminates on the day of the 400th anniversary of Sati, the Jaipur High Court is reported to have given its permission – on the basis of the local administration's plea that the 'yagna' has nothing to do with Sati. Yet it is well known that before the start of the 'hawan' every morning of the 'yagna', prayers are offered to invoke the spirit of Sati. Such a practice clearly falls under the purview of the Commission of Sati (Prevention) Act of 1987, under which any act of glorification of the Sati figure invites imprisonment. In fact, the Rani Sati temple itself, which attracts many local devotees all through the year, is a living temple that continues to encourage faith in a murderous custom (unlike ancient religious monuments, which retain only historical associations but do not perpetuate any barbarity that might have been associated with their original construction).

In this context, one cannot but compare the fate of the Babri masjid with that of the Rani Sati temple. Even if one agrees with the Sangh parivar that the former was built on the debris of a Rama temple destroyed by the Moghuls, one has to concede that the Babri masjid all these years remained a passive and non-violent witness to history. Unlike the politically volatile mosques in Kashmir or the Golden Temple in Amritsar, which became platforms for the fanatic clergy and their political patrons for preaching the message of xenophobia, the Babri masjid was an innocuous remnant of a turbulent past. Yet the Indian state allowed the votaries of Hindutva to destroy this monument in order to enable them to enjoy the petty and vicarious satisfaction of historical revenge, which spilled over into the worst communal riots in India since 1946-47.

Unlike the Babri masjid, the Rani Sati temple at Jhunjhunu continues to preach values that are abhorrent to the principles of the Indian Constitution. Although it might claim to be a monument to the heroism of a Rajput widow who chose to sacrifice herself to escape her capture by the victors in a war at a certain juncture in Indian history, her memory cannot surely be invoked for a replication of similar self-immolation of widows in India today. If such values and practices from the past are being revived today, certainly there are extra-religious motives involved – on the part of the nexus that has grown even in interior villages of local political careerists, businessmen and religious charlatans. After the immolation of Roop Kanwar in 1987, Deorala has become a pilgrimage where such a nexus is thriving on the gullibility of devotees. Incidentally, the organisers of the 'Chandi Mahayagna' at Jhunjhunu are celebrating the 400th anniversary of Sati with such fanfare because of the shot in the arm they received sometime back following the acquittal of the 39 accused in the Deorala sati case by a district and session judge.

Such judicial permissiveness emboldens the religious revivalists, and encourages their criminal agents to indulge in communal killings. While one agrees with the basic argument that mere laws cannot eradicate inhuman religious practices and beliefs that are deeply entrenched in the popular psyche and that widespread education – particularly of women – is needed to combat such superstitious acts and ideas, one must also assert that strict implementation of the laws that ban such practices is a necessary and effective deterrent. It was the will to firmly carry out the anti-suttee law of 1829 and punish anyone violating it that intimidated the orthodox brahmins of 19th century Bengal and led to the final extinction of the custom in that part of India.

BIOLOGICAL WEAPONS

Verification Hurdle

WHILE the issue of nuclear arms has held centre-stage in arms- control politics, there has been a comparative lack of urgency about eliminating or controlling the production and use of chemical and biological weapons – equally destructive and even more gruesome, if that were possible. The Chemical Weapons Convention still needs 65 ratifications to be brought into force. While biological weapons have been banned since 1925 and 133 countries (including India, with certain reservations) have ratified the 1972 Biological and Toxic Weapons Convention, there has been slow progress on evolving a verification protocol. This is the problem that the Fourth Review Conference, being held over the last two weeks in Geneva, is addressing. The verification protocol is urgently needed if the convention is not to fall apart from disuse, for about a dozen countries are suspected to be engaged in biological weapons programmes.

Specific efforts at evolving verification protocols were made when an ad hoc group was set up by the Special Conference held in Geneva in 1994 to draft proposals to strengthen the convention while taking care to "protect sensitive commercial proprietary information" and "avoid any impact on scientific research, international co-operation and industrial development". In the ad hoc committee's several sessions, issues which have come to the fore are such sensitive ones as the limits of control on work with listed pathogens and toxins production, microbiology, genetic manipulation, aerosol dissemination, etc. Considerable progress has been made through a series of confidence building information exchange conferences and by trial inspections by Britain, Canada and the Netherlands demonstrating the feasibility of such inspections without loss of commercial information, especially in the pharmaceutical industry and vaccine production facilities. An important aspect of the verification measures is investigation of alleged use, including unusual outbreaks of disease. It is not surprising that there has been much quibbling about the fine print. According to the original timetable the ad hoc committee was to have completed its work by the time the Fourth Review meeting took place. As it happens, the committee has not been able to arrive at a protocol sufficiently without loopholes which is legally binding and contains a deterrence component.

Meanwhile, in a parallel move, Britain, the US and Russia issued a joint statement on Biological Weapons in 1992 and began a trilateral process to eliminate these weapons. However, according to the *SIPRI Annual Report 1996*, the US still claims that it is not satisfied with the Russians' assurance of having abandoned the programme. It claims that there is need for such an assurance, especially on the sites where legitimate biological activities are 'co-located' with former biological weapons programmes. There were some allegations of the use of biological weapons in 1995, but they could not be verified. Thus there were allegations that the government of Myanmar was using such weapons on the Thai border to suppress the militant Karen ethnic minority, the suspicions having been roused by reports of a disease similar to cholera or shigella which could have been brought on by biological weapons. The allegations could not be proved, however.

Admittedly verification and monitoring in the case of biological weapons is far more difficult and complex than in the case of nuclear weapons, especially because it is much harder to distinguish between legitimate biological enterprise and a weapons programme. And with the rapid growth of sophisticated biological and genetic research programmes, such verification is likely to get more complicated. Nevertheless, without an acceptable protocol for monitoring and verification, the Biological and Toxic Weapons Convention remains just a piece of paper.

CURRENT STATISTICS

EPW RESEARCH FOUNDATION

The banking and monetary situation is showing growing signs of excess liquidity. While M_3 growth is accelerating, the expansion of domestic credit, particularly credit to the commercial sector, has been unduly slow. Both the increase in net RBI credit to the centre and the use of ad hocs have remained at low levels for sometime. Official acquisition of foreign assets of over Rs 10,000 crore since March has contributed to the monetary expansion. A situation where increase in banks' aggregate deposits of Rs 31,105 crore has been accompanied by increase in bank credit of less than one-tenth of that amount is unprecedented

Macroeconomic Indicators

Index Numbers of Wholesale Prices (1981-82 = 100)	Weights	Nov 23, 1996	Variation (Per Cent): Point-to-Point								
			Over Month	Over 12 Months		Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93
				Latest	Previous	1996-97	1995-96				
All Commodities	100 0	319.0	0.3	6.7	7.7	6.5	4.8	5.0	10.4	10.8	7.0
Primary Articles	32.3	335.0	1.2	8 5	7 8	8.8	5.8	5 4	12.7	11 5	3.0
Food Articles	17 4	386.0	2.3	13 2	7 9	12.0	8 7	9.8	11 9	4.4	5.4
Non-Food Articles	10.1	332.1	–0.8	1 6	8.1	4.6	1 1	-1.9	15 5	24 9	–1.4
Fuel, Power, Light and Lubricants	10.7	332.9	0.9	17 1	1.1	12.8	–0.1	3.7	2 4	13.1	15.2
Manufactured Products	57.0	307.3	–0 3	3.8	9 0	4.0	5 2	5.0	10 7	9 9	7 9
Food Products	10 1	300 7	–2.2	6.7	3 1	11 1	3 4	–0 7	8 1	12.3	6.8
Food Index (computed)	27.5	354.7	0.9	11.1	6 3	11.7	6 9	6.3	10.6	7.0	5.8
All Commodities (Average Basis) (April 6-November 23, 1996)	100 0	311.5	–	5 5	9.7	5.7	9.0	7 8	10 9	8 3	10.1

Cost of Living Indices	Latest Month	Variation (Per Cent): Point-to-Point								
		Over Month	Over 12 Months		Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93
			Latest	Previous	1996-97	1995-96				
Industrial Workers (1982=100)	344[9]	0.3	8 5	10.1	7.8	8.2	8 9	9 7	9.9	6.1
Urban Non-Man Emp (1984-85=100) (for 1995-96)	263[10]	0.8	9 6	10.1	7.8	8.1	–	9 9	8.3	6 8
Agri Lab (1986-87=100) (Link factor 5 89)	259[9]	1 2	7 9	13 2	9.3	8.6	7.2	11.1	11 2	0 6

Money and Banking (Rs crore)	Nov 8, 1996	Variation					
		Over Month	Fiscal Year so far		1995 96	1994-95	1993-94
			1996-97	1995-96			
Money Supply (M_3)	654711	10884 (1 7)	52875 (8.8)	31062 (5 8)	70410 (13 2)	79241 (17 5)	73307 (19 3)
Currency with Public	129191	5987 (4.9)	11030 (9 3)	13696 (13.6)	17480 (17.4)	18698 (22.8)	14170 (20.9)
Deposits with Banks	520171	5493 (1.1)	39836 (8 3)	15094 (3.5)	52973 (12 4)	59685 (16 2)	57925 (18 7)
Net Bank Credit to Govt	279898	3749 (1.4)	22488 (8 7)	24058 (10.8)	34991 (15.7)	16328 (7.9)	28855 (16 3)
Bank Credit to Comml Sector	349761	5044 (1.5)	8859 (2.6)	19414 (6 6)	48179 (16.5)	48059 (19 6)	17161 (7 5)
Net Foreign Exchange Assets	87849	2164 (2.5)	10693 (13.9)	–495 (–0 6)	–628 (–0.8)	25159 (47.8)	27674 (110 9)
Reserve Money (Nov 15)	193259	4130 (2.2)	–1078 (–0 6)	18341 (10.8)	25054 (14 8)	30611 (22.1)	27892 (25.2)
Net RBI Credit to Centre (Nov 15)	127487	2412 (1.9)	8719 (7 3)	18496 (18.7)	19855 (20 1)	2130 (2.2)	260 (0.3)
Ad hoc Treasury Bills (Nov 22)	37610	4365	8165	11990	5965	1750	6300
Scheduled Commercial Banks (Nov 22)							
Deposits	464925	1767 (0 4)	31105 (7 2)	13386 (3.5)	46961 (12.1)	53629 (16 1)	52144 (18 6)
Advances	256493	1237 (0 5)	2478 (1 0)	18014 (8 5)	42455 (20.1)	40638 (23 8)	11566 (7.3)
Non-Food Advances	247319	812 (0 3)	3095 (1 3)	17639 (8.9)	44938 (22 5)	37798 (23.4)	8875 (5 8)
Investments	180539	2272 (1 3)	15756 (9 6)	10421 (7 0)	15529 (10 4)	14171 (10.5)	28641 (26.9)

Index Numbers of Industrial Production (1980-81=100)	Weights	July 1996	Fiscal Year So Far		Fiscal Year Averages					
			1996-97	1995-96	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
General Index	100.0	285 1	283.1(9.3)	259 1(12.3)	284 3(12 1)	253 7(9.4)	232.0(6 0)	218.9(2.3)	213 9(0.6)	212 6(8 2)
Mining and Quarrying	11 5	243.0	247.7(1.8)	243.4(15.4)	265.9(6.9)	248 8(7.5)	231.5(3.5)	223 7(0 6)	222.5(0.6)	221 2(4 5)
Manufacturing	77.1	282.8	279.3(11.7)	250.1(11.9)	278.8(13.6)	245.4(9.8)	223 5(6 1)	210.7(2.2)	206.2(–0.8)	207.8(9.0)
Electricity	11 4	343.0	344.1(2.5)	335.8(12 5)	340 3(8.2)	314.6(8.5)	290.0(7 4)	269.9(5.0)	257.0(8.5)	236.8(7.8)

Capital Market	Dec 6, 1996	Month Ago	Year Ago	1996-97 So Far		1995-96		End of Fiscal Year		
				Trough	Peak	Trough	Peak	1995-96	1994-95	1993-94
BSE Sensitive Index (1978-79=100)	2826(–7.9)	3044	3070(–24.0)	2745	4069	2826	3584	3367(3.3)	3261(–13.7)	3779(65.7)
BSE 100 (1983-84=100)@	1255(–10 3)	1364	1399(–27.2)	1217	1843	1304	1691	1549(–3.5)	1606(–12.2)	1830(79.2)
BSE-200 (1989-90=100)	281(–8 8)	302	308(–32.8)	273	413	289	385	345 (–6 3)	368(–18.2)	450(92.3)
NSE (Nov 3, 1995=1000)	808	867	–	788	1196	na	na	na	na	na
Skindia GDR Index (Apr 15, 1994=100)	54 2(–21.3)	59 8	68.9(–30.0)	51 6	90.0	61.6	87.9	78.5(0.7)	78.0	na

@ Renamed index since Oct 14, 1996, compared with the earlier National Index (1983-84=100)

Foreign Trade	October 1996	Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93	1991-92
		1996-97	1995-96					
Exports Rs crore	9542	66665 (19.8)	55635 (24.7)	106465 (28.8)	82674 (18.5)	69751 (29.9)	53688 (21.9)	44042 (35.3)
US $ mn	2677	18896 (9.1)	17316 (21.7)	31831 (20.9)	26331 (18.4)	22238 (20.0)	18537 (3.8)	17866 (–1.5)
Imports Rs crore	11007	74687 (15.2)	64837 (32.1)	121647 (35.2)	89971 (23.1)	73101 (15.3)	63375 (32.4)	47851 (10.8)
US $ mn	3088	21170 (4.9)	20180 (29.0)	36370 (26.9)	28654 (22.9)	23306 (6.5)	21882 (12.7)	19411 (–19.4)
Non-POL US $ mn	2290	15954 (–3.4)	16524 (32.2)	28822 (26.8)	22727 (29.5)	17552 (11.2)	15782 (12.3)	14047 (–22.2)
Balance of Trade. Rs crore	–1465	–8022	–9202	–15182	–7297	–3350	–9686	–3809
US $ mn	–411	–2274	–2863	–4539	–2324	–1068	–3345	–1545

Foreign Exchange Reserves (excluding gold)	Nov 29, 1996	Dec 1, 1995	Mar 31, 1996	Variation Over							
				Month Ago	Year Ago	Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93
						1996-97	1995-96				
Rs crore	69367	60496	58726	829	8871	10641	–5532	–7302	18402	27430	5385
US $ mn	19414	17315	17126	212	2099	2288	–3501	–3690	5640	8724	731

Notes: (i) Superscript numeral denotes month to which figure relates, e g, superscript 9 stands for September. (ii) Figures in brackets are percentage variations over the period specified or over the comparable period of the previous year. na = not available.

Foreign Trade

Commodity Composition of Imports and Exports	April-September* 1996-97 Rs Cr	US $ mn	April-September* 1995-96 Rs Cr	US $ mn	1995-96 Rs Cr	US $ mn	1994-95 Rs Cr	US $ mn	1993-94 Rs Cr	US $ mn
Imports										
Food and live animals chiefly for food	777(1.2	221	896(1.7)	282	2084(1.7)	623	4034(4.5)	1285	1651(2.3)	526
Pulses	326(0.5)	93	318(0.6)	100	631(0 5)	189	593(0.7)	189	567(0.8)	181
Cashewnuts	226(0.4)	64	251(0.5)	79	749(0.6)	224	691(0.8)	220	483(0.7)	154
Crude materials, inedible oils except fuels	3422(5.4)	973	4025(7.4)	1269	8031(6.6)	2401	6748(7.5)	2149	4273(5.8)	1362
Fertiliser crude	198(0.3)	56	212(0.4)	67	500(0.4)	149	479(0.5)	153	388(0.5)	124
Metalliferous ores and metal scrap	1205(1.9)	343	1162(2.1)	366	2627(2.2)	786	2349(2.6)	748	1411(1.9)	450
Mineral fuels, lubricants and related materials	17706(28.0)	5034	11611(21.5)	3659	28221(23.2)	8438	20837(23.2)	6636	19508(26.7)	6219
Petroleum, crude and products	16127(25.5)	4585	10362(19.2)	3266	25211(20 7)	7538	18613(20.7)	5928	18045(24.7)	5753
Animal and vegetable oils, fats and waxes	1553(2.5)	442	1159(2.1)	365	2186(1.8)	654	626(0.7)	199	168(0.2)	54
Chemicals and related products	7825(12.4)	2225	8702(16 1)	2743	18442(15 2)	5514	13086(14 5)	4168	9317(12.7)	2970
Organic chemicals	2837(4.5)	807	2736(5.1)	862	5747(4.7)	1718	4350(4.8)	1382	2783(3.8)	887
Fertiliser manufactured	985(1 6)	280	2220(4 1)	700	4422(3.6)	1322	2399(2 7)	764	1983(2.7)	632
Manufactured goods classified chiefly by materials	11059(17.5)	3144	8579((15.9)	2704	19361(15.9)	5789	14163(15.7)	4511	14619(20.0)	4661
Pearls, precious/semi-precious stones	4371(6.9)	1243	3109(5.7)	980	6972(5 7)	2084	5117(5 7)	1630	8294(11.3)	2644
Iron and steel	2404(3.8)	684	1879(3.5)	592	4596(3 8)	1374	3397(3 8)	1082	2347(3.2)	748
Non-ferrous metals	1833(2 9)	521	1522(2.8)	480	3037(2.5)	908	2254(2.5)	718	1504(2 1)	480
Capital goods	13371(21.2)	3802	12605(23.3)	3973	27865(22 9)	8331	19989(22.2)	6366	16630(22.7)	5301
Machinery except electrical and electronic	6714(10 6)	1909	5587(10 3)	1761	13242(10.9)	3959	8565(9 5)	2728	5902(8.1)	1882
Transport equipment	1708(2.7)	486	1625(3.0)	512	3619(3.0)	1082	3497(3 9)	1114	3981(5 4)	1269
Project goods	3217(5.1)	915	3905(7.2)	1231	7528(6.2)	2251	5820(6.5)	1854	5062(6.9)	1614
Others	7470(11 8)	2124	6509(12.0)	2051	15456(12 7)	4621	10488(11 7)	3340	6934(9 5)	2211
Total	63181(100 0)	17964	54087(100 0)	17046	121647(100.0)	36370	89971(100.0)	28654	73101(100 0)	23306
Exports										
Food and live animals chiefly for food	10205(18 0)	2902	6681(14.4)	2106	18343(17.2)	5484	12036(14 6)	3833	10851(15 6)	3459
Cashewnut	721(1 3)	205	587(1.2)	185	1231(1 2)	368	1245(1 5)	397	1045(1.5)	333
Oil-meals	1212(2.1)	345	677(1.5)	213	2351(2.2)	703	1798(2 2)	573	2324(3.3)	741
Marine products	1687(3.0)	480	1299(2.8)	409	3384(3.2)	1012	3337(4 0)	1063	2552(3.7)	814
Beverages, tobacco and tobacco manufactures	86(0 2)	24	50(0 1)	16	118(0 1)	35	117(0 1)	37	139(0.2)	44
Crude materials, inedible oils except fuels	3716(6.5)	1057	2820(6.1)	889	6624(6.2)	1980	4895(5 9)	1559	4901(7.0)	1563
Iron ore	810(1 4)	230	828(1.8)	261	1735(1.6)	519	1297(1 6)	413	1374(2.0)	438
Mineral fuels, lubricants and related materials	920(1.6)	262	740(1 6)	233	1518(1.4)	454	1309(1 6)	417	1248(1.8)	398
Petroleum crude and products	920(1.6)	262	740(1 6)	233	1518(1 4)	454	1309(1.6)	417	1248(1.8)	398
Animal and vegetable oils, waxes and fats	406(0 7)	115	371(0.8)	117	798(0 7)	239	491(0 6)	156	357(0.5)	114
Chemicals and chemical products	5608(9.9)	1594	4604(9 9)	1451	10210(9 6)	3053	8034(9 7)	2559	6000(8.6)	1913
Drugs, pharmaceuticals and fine chemicals	1867(3.3)	531	1417(3.1)	447	3366(3.2)	1006	2512(3 0)	800	2010(2.9)	641
Dyes, intermediates and coal tar chemicals	936(1 6)	266	732(1.6)	231	1631(1 5)	488	1506(1.8)	480	1151(1.7)	367
Plastic and linoleum products	1019(1 8)	290	926(2.0)	292	1946(1 8)	582	1502(1 8)	478	1053(1.5)	336
Manufactured goods classified chiefly by materials	28489(50.2)	8100	25539(55.1)	8049	56269(52.9)	16823	46185(55.9)	14709	38223(54.8)	12186
Leather footwear	620(1.1)	180	552(1.2)	174	1951(1 8)	583	1725(2.1)	549	1793(2.6)	572
Gems and jewellery	7941(14.0)	2258	7855(16.9)	2476	17645(16.6)	5276	14131(17 1)	4500	12532(18.0)	458
Cotton yarn, fabrics, madeups, etc	5223(9.2)	1485	3794(8.2)	1196	8645(8.1)	2585	7014(8 5)	2234	4821(6.9)	1537
Manmade yarn, fabrics madeups, etc	1243(2.2)	353	1199(2.6)	378	2483(2.3)	742	1928(2.3)	614	1335(1.9)	426
RMG cotton and accessories	5169(9.1)	1470	4221(9.1)	1330	9478(8 9)	2834	7856(9.5)	2502	6173(8.9)	1968
Capital goods	5272(9.3)	1499	3960(8.6)	1248	9105(8 6)	2722	7214(8.7)	2298	6166(8.8)	1966
Metal manufactures	1721(3.0)	480	1183(2.6)	373	2812(2 6)	841	2217(2.7)	706	2080(3.0)	663
Machinery and instruments	1819(3.2)	517	1246(2.7)	393	2841(2.7)	849	2282(2.8)	727	2004(2.9)	639
Transport equipments	1516(2 7)	431	1365(2.9)	430	3104(2.9)	928	2422(2.9)	771	1857(2.7)	592
Others	2100(3.7)	597	1588(3.4)	500	3478(3.3)	1040	2392(2.9)	762	1866(2.7)	595
Electronic goods	1371(2.4)	390	936(2 0)	295	2174(2 0)	650	1294(1.6)	412	952(1.4)	303
Total	56801(100.0)	16150	46353(100.0)	14609	106465(100.0)	31831	82673(100.0)	26330	69749(100.0)	22237

Figures in brackets are percentages to respective totals. * Provisional

MUKAND

New Steel Plant

MUKAND, the country's leading mini steel unit, improved its performance in 1995-96. The company produces iron and steel products such as wire rods, bars, rods and sections and bright bars; steel castings including alloy steel castings; and industrial machinery including spares, assemblies and component parts. The Bajajs and Shahs together hold 32 per cent of the company's equity and another 32 per cent is held by financial institutions. While net sales increased by 22.2 per cent over the previous year, value of production improved by 24.4 per cent. The company produced 2,16,261 tonnes and sold 2,12,214 tonnes of iron and steel products in 1995-96 compared to a production of 2,00,191 tonnes and sale of 1,95,352 tonnes in the previous year, representing increases of 8 per cent and 8.6 per cent, respectively. The higher offtake was mainly due to the higher demand for steel from automobile and engineering units in the country. A lower increase in operating expenses led to a rise of 44.1 per cent in operating profit. However, increased interest cost (up 27.7 per cent), higher depreciation charges (up 25.3 per cent) and the tax provision of Rs 10 crore (1994-95: nil) led to a lower 15 per cent rise in net profit. Consequently, the company did not increase the dividend from last year's 35 per cent.

Though the company's exports increased by 89.9 per cent, it remained a net importer with imports rising by 14.8 per cent over the same period.

The company has decided to have a strategic alliance with Kalyani Ferrous Industries (which is setting up mini blast furnaces at Hospet in Karnataka) as production of steel through the electric arc furnace route is becoming uncompetitive following the continuous increase in cost of scrap and electricity. Mukand, after installing facilities for converting hot metal into steel, plans to buy hot metal from Kirloskar Ferrous Industries and convert it into steel billets and blooms, a part of which will be sold to Kalyani Steel.

The company is also setting up a 5 mn metric tonne (mmt) steel plant at a total cost of Rs 12,000 crore over a five-year period. The project, which is being set up as a separate company christened Mukand Vijaynagar Steel (MVSL), will be completed in three phases, the first of which will have a capacity of 1.75 mmt and involve an investment of Rs 5,000 crore. The first phase is expected to be completed in 36 months. Kawasaki Steel Corporation, a world major in steel, is likely to pick up a 20 per cent equity stake in the project and also supply the blast furnace technology. The new company plans to tap the capital market sometime in 1998.

For the first five months of 1996-97 the company has reported a 6.8 per cent fall in turnover to Rs 363.3 crore from 390 crore in the corresponding period last year mainly due to the slump in global demand for stainless steel products. The cut in import duties coupled with a drop in global steel prices also made imports cheaper. However, the increase in custom duties on stainless steel billets from 20 to 30 per cent in the 1996-97 Finance Bill is expected provide some relief in the future.

The company had made a private placement of equity. To neutralise the equity dilution from the private placement, the company issued 22.59 lakh warrants to the promoters which were to be converted into fully paid-up shares of Rs 10 each at a premium of Rs 233.5 per share by August 25, 1996. Though the promoters exercised the option of converting the warrants in 1995-96, and were accordingly allotted partly paid-up shares, they have now asked for more time for paying the balance amount for converting the partly paid-up shares into fully paid-up shares. The company's share price, in the meanwhile, has fallen steeply over the last six months to touch Rs 64.75, a huge decline over the allotment price of Rs 243 5 per share.

SIEMENS

Telecom Misadventure

Siemens saw only a marginal improvement in its performance during 1995-96 with its huge investments in the telecommunication and power sectors affecting its liquidity position. The company's main products include switchgear, electric motors/generators, switchboards, control boards and miscellaneous accessories, variable speed AC/DC drive systems, motor control modules, programmable control systems and digital electronic switching systems.

Though net sales and value of production improved by 34.7 per cent over 1994-95, the company's bottomline suffered due to the high cost of finance. Though operating profit jumped 52.3 per cent over the previous year, interest charges shot up by more than 160 per cent, depreciation charges rose by 56.3 per cent and tax provision was higher by 17.1 per cent over the same period. Consequently, net profit increased by a marginal 6 per cent and the company thought it prudent to cut the dividend from last year's 55 per cent to 45 per cent. The company claims that the main reasons for its changed dividend policy and the higher interest costs were the tight liquidity crunch, its considerable investments in the telecommunication and power segments clearly affected its performance in 1995-96. The lack of orders for products such as EWSD switching systems and fibre optic cables has led to the company's Calcutta facility remaining almost completely idle throughout the year. Also, the company (a net importer) saw a sharp increase in imports of 154.4 per cent in 1995-96 while its exports fell by 37.4. A sharp increase in borrowings led to a jump in the percentage of debt to equity from 39.4 per cent last year to 94.4 per cent.

Siemens, meanwhile, has become the first Indian company to dematerialise its scrips following a tripartite agreement with its registrar and the National Securities Depository (NSDL) on October 29. This will now enable the company's shareholders to hold shares in the electronic form at the NSDL, thus avoiding physical delivery of scrips and entailing immediate transfer of shares.

Due to its poor performance in 1995-96, the company is now planning to hive off its telecom operations to a new, majority-owned company of its parent, Siemens AG. This will enable it to transfer its losses to the German company (which has the capacity to absorb such losses) and will also result in improving the bottomline of the Indian company. Also, with hardly any signs of the liquidity position improving, the company's performance in 1996-97 is also not expected to be any better although the second half could see a slight improvement in the liquidity situation.

With the company's earnings per share rising from Rs 12.4 last year to Rs 13.1, the company's share price rules at Rs 343 at the bourses, discounting its 1995-96 earnings 26.2 times.

ARVIND MILLS

Expansion Plans

This Arvind Lalbhai group company saw a mixed performance in 1995-96 with the first half of the year seeing an unprecedented rise in the price of cotton (its main raw material) and the second half showing a relatively more favourable downward trend in prices. While net sales for the year improved by 24.8 per cent over the previous year, 1994-95, the value of production rose by a lower 15.5 per cent over the same period as production was only marginally higher. The company is the largest manufacturer of denim-wear in the country.

The company's main revenue comes from its textile division (up to 92.4 per cent) while the balance is drawn from the garment division and electronics and medicines. The company produced 762.2 lakh metres of cloth and 43.6 lakh kgs of yarn during the year compared to 751.9 lakh metres of cloth and 43.7 lakh kgs of yarn in the previous year. Production of garments (converted on job work basis by outsiders) also saw a sharp increase from 3,17,035 nos to 11,98,716 nos

(Rs lakh)

Financial Indicators	Mukand March 1996	Mukand March 1995	Arvind Mills March 1996	Arvind Mills March 1995	Siemens March 1996	Siemens March 1995
Income/appropriations						
1 Net sales	100259	82078	70227	56270	117540	87252
2 Value of production	102974	82759	69565	60248	117540	87252
3 Other Income	3220	1808	13283	9329	2265	1607
4 *Total income*	106194	84567	82848	69577	119805	88859
5 Raw materials/Stores and spares consumed	57191	44449	39797	32355	75028	57136
6 Other manufacturing expenses	24207	21287	7078	7215	1022	793
7 Remuneration to employees	4839	4264	4164	4680	12336	9932
8 Other expenses	4776	4027	8190	7855	14694	10062
9 *Operating profit*	15181	10538	23619	17472	16725	10936
10 Interest	8078	6327	8101	5253	6244	2389
11 *Gross profit*	6834	4930	16201	13288	9968	7964
12 Depreciation	1714	1368	4815	4224	4104	2625
13 *Profit before tax*	5095	3560	11386	9064	5864	5339
14 Tax provision	1000	-	-	-	2140	1827
15 *Profit after tax*	4095	3560	11386	9064	3724	3512
16 Dividends	918	746	4487	3989	1278	1562
17 Retained profit	3177	2814	6899	5075	2446	1950
Liabilities/assets						
18 Paid-up capital	2644	2587	9986	9986	2840	2840
19 Reserves and surplus	36185	31944	99537	92639	25818	23371
20 Long term loans	17586	20653	59359	50447	27062	10327
21 Short term loans	25143	11650	12122	11549	18024	14699
22 Of which bank borrowings	25143	11650	12122	8049	18024	14699
23 Gross fixed assets	40010	36930	78540	61095	53560	37658
24 Accumulated depreciation	15225	13693	18585	15152	18962	14465
25 Inventories	25246	22751	21270	22179	34473	24265
26 Total assets/liabilities	113159	94126	196685	182561	136609	93022
Miscellaneous items						
27 Excise duty	8992	8020	679	635	-	-
28 Gross value added	16604	14827	19480	17920	27074	18751
29 Total foreign exchange income	16034	8447	30999	19341	9925	11227
30 Total foreign exchange outgo	22885	21300	3262	8365	25833	11817
Key financial and performance ratios						
31 Turnover ratio (sales to total assets) (%)	88 60	87 20	35.71	30 82	86 04	93.80
32 Sales to total net assets (%)	122.93	122 81	38.80	34.18	159.39	170 29
33 Gross value added to gross fixed assets (%)	41.50	40 15	24 80	29 33	50.55	49.79
34 Return on investment (gross profit to total assets) (%)	6.04	5 24	8.24	7 28	7.30	8 56
35 Gross profit to sales (gross margin) (%)	6 82	6 01	23.07	23.61	8.48	9 13
36 Operating profit to sales (%)	15.14	12 84	33.63	31.05	14 23	12.53
37 Profit before tax to sales (%)	5.08	4.34	16 21	16.11	4.99	6.12
38 Tax provision to profit before tax (%)	19 63	-	-	-	36 49	34 22
39 Profit after tax to net worth (return on equity) (%)	10 55	10 31	10.40	8.83	12.99	13.40
40 Dividend (%)	35.00	35 00	45 00	41.00	45.00	55.00
41 Earning per share (Rs)	15 49	13.76	11.40	9.08	13.11	12 37
42 Book value per share (Rs)	134.32	119.70	109.68	102.77	100.91	92 29
43 P/E ratio (based on latest and corresponding last year's price)	4.18	15.12	10.44	11.68	26.23	36.79
44 Debt-equity ratio (adjusted for revaluation) (%)	49.52	66 70	54.20	49.16	94.43	39 40
45 Short term bank borrowings to inventories (%)	99.59	51.21	56.99	36 29	960.26	60.58
46 Sundry creditors to sundry debtors (%)	54.99	38.06	51.54	82.00	232.66	102.37
47 Total remuneration to employees to gross value added (%)	29 14	28.76	21.38	26.12	45.56	52.97
48 Total remuneration to employees to value of production (%)	4.70	5.15	5.99	7.77	10 50	11.38
49 Gross fixed assets formation (%)	9.02	6.45	28.55	49.78	42.23	69.20
50 Growth in inventories (%)	10.97	18.19	-4.10	8.96	-92.26	33.99

(up 278 per cent). Sale of cloth and yarn, in volume terms, was higher by 7.2 per cent and 3.7 per cent at 788.2 lakh metres and 44 lakh kgs, respectively.

With the sharp rise in cotton prices, the company undertook certain measures to protect the bottomline and improve profitability through sustainable means. This included a review and rationalisation of the product mix under which it discontinued certain products yielding lower contribution and also upgraded its product portfolio by adding value added and differentiated products. Further, extensive use of value engineering in choosing raw material ensured cost reduction without compromising on fabric quality and manufacturing productivity.

While manufacturing expenses increased by 18.5 per cent during the year, remuneration to employees fell by over 11 per cent mainly due to the major cost cutting exercise which included voluntary retirement schemes at both the worker and management levels. This led to a sharp cut of 37 per cent in the total number of employees from 8,604 to 5,340, reducing employee cost from 8.4 per cent of sales in the previous year to 5.9 per cent. Consequently, operating profit rose by 35.2 per cent during the year. There was a sharp increase of 54.2 per cent in interest costs, despite a fall of 15.3 per cent in total loans. A lower rise of 14 per cent in depreciation charges and nil taxation (1994-95: nil) helped the company post a 25.6 per cent rise in net profit. Encouraged by its performance, the company raised the dividend rate from 41 per cent last year to 45 per cent.

While exports improved by 60.4 per cent, imports fell significantly by 76.3 per cent. With a major part of the company's income coming from exports, it has set up a foreign exchange division to enable scientific management of foreign exchange risk.

The company, meanwhile, raised a term loan of $ 15 mn from a syndicate of overseas banks during the year and plans to tap the comparatively cheaper overseas debt market. Arvind Mills has drawn up major investment plans to be implemented over the next two years (at an estimated cost of Rs 850 crore) involving expansion of the denim fabric capacity by 40 mn metres per annum; establishing a world class facility to manufacture 3,600 tonnes per annum knitted fabrics in technical collaboration with 'Alamac', a division of West Point Stevens, USA; expanding the high value cotton shirtings facility to 20 mn metres per annum; setting up captive power generation facilities to meet the entire requirements of power for the existing and the proposed new facilities; and expansion of the jeans and casual gaberdine trousers capacity to 4 mn pieces per annum.

The company's share price currently quotes at around Rs 119 on the bourses, discounting the 1995-96 earnings per share by 10.4 times.

High Cost of Financial Sector Reform

The slow-down in industrial activity is now increasingly getting reflected in the portfolio behaviour of banks and financial institutions. Banks' initial reluctance to lend has been reinforced now by companies' unwillingness to borrow both because of the low level of industrial activity and the persistence of high intererst rates. All aspects of financial sector liberalisation, however, preclude any significant lowering of interest rates by banks and financial institutions, even as company finance studies clearly show how mounting interest costs are having a severe impact on corporate results.

I
Recession Reinforcing Excess Liquidity

ALL indicators of industrial activity – output trends, sales of corporate bodies and their profitability, growth of export-import trade and inventories of finished products – point to distinct signs of a slow-down. This in turn is now increasingly getting reflected in the portfolio behaviour of banks and financial institutions, particularly in the form of nursing excess short-term liquidity. Interestingly, the large CRR releases and the consequential increase in liquidity are only concentrated among banks without their spread effects seen in the activities of mutual funds, non-banking financial companies (NBFCs) and the primary segments of the capital market, all of which are indicative of sluggish real economic activity and inadequate financial savings. Banks have acquired sizeable deposit resources but credit growth continues to be depressed. Banks' initial reluctance to lend has now been reinforced by the corporates' unwillingness to borrow both due to low industrial activity and persistence of high rates of interest. The recent Supreme Court judgment requiring bank officials to stay within their lending limits, the RBI's circular advising bank officials to be careful in using their discretionary powers and constraints like strict adherence to capital adequacy norms have all imposed restraints on commercial lending by public sector banks to begin with. With the surfeit of liquidity, banks are being pressurised to lend but there appear to be fewer takers of credit at the prevailing high rates of interest.

All aspects of financial sector liberalisation including high cost of funds, stiff competition and the swearing by the bottomline, are preventing banks from making any significant downward adjustment in interest rates. Although the prime lending rates of banks and financial institutions have been brought down in response to the authorities' professed desire, the average lending rates for the majority of the industrial borrowers continue to be pegged at high rates. It is now known that though the SBI was the first to cut the PLR from 15.5 per cent to 14.5 per cent, such benefit was limited to only a few government-guaranteed accounts. For other top rated companies, the PLR still remains at 15.5 per cent. SBI has also kept its maximum lending rate unchanged at 18.25 per cent which applies to almost 50 per cent of its borrowal accounts. Though the FIs had reduced their maximum lending rates by one percentage point to 20 per cent, their modal rates remain high and they are also sceptical about any downward movement of long-term rates in the immediate future. IDBI still continues to borrow at 16 per cent for one-year funds and 16.5 per cent for three years. With the drying up of low-cost funds from SLR bonds and also central banking assistance, the term-financing institutions are vying with one another to mobilise funds at a high cost in an environment where domestic financial savings are not growing. As the demand for funds particularly for infrastructure projects is likely to increase substantially in the future, the long-term rates of interest are likely to remain at high levels. The high interest rate environment is already having a serious impact on corporate results. Studies on company finances reveal sharp jump in their interest cost by about 30 per cent in 1995-96 and again by about 33 per cent as per the half-yearly results of 1996-97.

In such a situation banks continue to harbour excess liquidity. Between March 31 and November 22, 1996, aggregate deposits of scheduled commercial banks expanded by Rs 28,696 crore (or by 6.6 per cent) against the increase of only Rs 13,386 crore (3.5 per cent) in the corresponding period of 1995-96. No doubt the deposit growth appears strong essentially in relation to last year's meagre growth and also in relation to the sluggish credit demand, as otherwise the actual growth in the current year is unlikely to exceed the working estimate of bank deposits at Rs 68,000 crore (16 per cent). The Reserve Bank had initially expected a bank credit expansion of Rs 50,800 crore or 20 per cent during the whole of 1996-97. On the other hand, the actual increase so far has been a paltry Rs 1,599 crore or 0.6 per cent against an expansion of Rs 18,014 crore of 8.5 per cent during the comparable period of the previous year. Commercial banks do not have the wherewithal to deploy funds for long-term assistance to industries which is the need of the hour. Instead, banks have expanded their investment in government securities (Rs 16,530 crore) and repaid their borrowings from RBI (Rs 14,000 crore).

Sluggish Growth of Domestic Debt Market

The phenomenal expansion in liquidity as a result of capital inflows from abroad in 1993-94 and 1994-95 had given a boost to the equity as well as the domestic debt market. The stock of marketable debt had suddenly jumped to over Rs 3,00,000 crore or a little more than one-third of GDP at current market prices by the end of March 1994 (Table 1). Thereafter, the corporate equity market suffered a setback but the debt market gained some momentum particularly because of the offer of disproportionately high real rates of interest on them. As a result, the total stock of marketable debt increased to about Rs 3,91,000 crore by the end of March 1996, i e, by about 29 per cent in two years. It may have touched about Rs 4,12,000 crore by now partly because of large government debt and partly due to private placements of PSU and other bonds in the absence of a vibrant primary market. This is of course certainly not a high rate of growth in debt instruments, and combined with the fact that primary issues of corporate equities and resource mobilisation by mutual funds and NBFCs have suffered a setback (not all of course additive), the above suggests that the growth of financial assets in the economy has been niggardly. This is one reason why, in a competitive environment, the interest rates on debt instruments have remained generally high (Table 1). Also, as the data presented in the subsequent parts of the note suggest, the secondary market turnover in debt instruments has risen rather sizeably over the recent period due to the availability of large short-term liquidity.

II
Fund Flows, Call Money and Exchange Markets

Though the overnight money rates displayed greater volatility during November, the underlying situation has been

one of easy liquidity. The increase in the coefficient of variation from 15.2 per cent in October to 61.6 per cent in November (Table 2) in fact exaggerated the range of variations, for the call rates only crossed the psychological barrier of the export refinance rate of 11 per cent for the first time since the end of June (Graph A). Only a year ago the rates had once skyrocketed to a range as high as 60-130 per cent (Table 3).

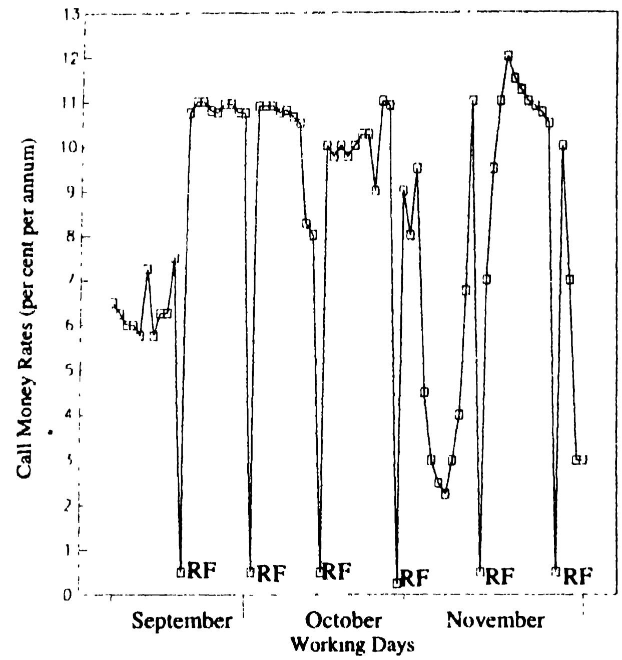
When the call rates ruled abysmally low at 1-2 per cent during the first week during November following relatively larger inflows of funds into the system, the RBI surprised the market with a 4-day repo auction, absorbed Rs 932 crore on November 5, and helped the call rate to move up to 11 per cent on November 7; there was also an

TABLE 1: SIZE OF THE INDIAN DOMESTIC DEBT MARKET

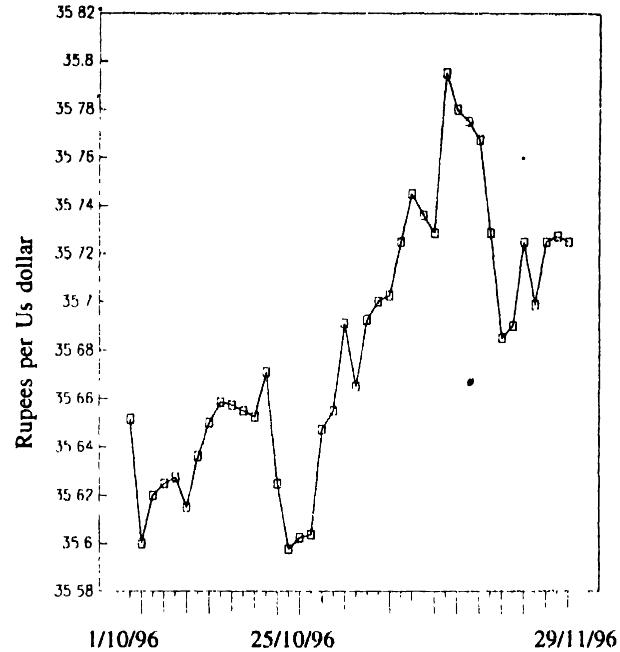
Debt Instrument	Outstanding, at end March (Rs Crore)					For the Latest Period			
	1996	1995	1994	Peak Reached Since March 1994	Latest (End November 1996 or Thereabout)	Interest/ Yield/ Discount Rate as per Primary Issues (Per Cent Per Annum)	General Maturity Period	Possible Monthly Turnvoer in the Secondary Market (Rupees, Crore) *	Prevalent YTMs in the Secondary Market (Average for October 1996) (Per Cent Per Annum)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Broad Magnitude of Domestic Debt Stock (A+B)	390,698	342,492	302,862	444,712	411,948				
A Sovereign debt (1 to 5)	267,785	228,576	198,371	310,361	294,858				
1 91-day treasury bills on tap	7,846	8,050	5,017	9,051	8,915	4.6	91 days	5000 (**)	4.60
2 91-day treasury bills (auctions)	6,500	800	5,850	6,500	6,500	7.2	91 days	2,000	9.29
3 364-day treasury bills	1,875	8,163	8,386	20,323	5,246	10.3	364 days	1,200	12.41
4 Dated government securities (a+b)	207,644	168,723	136,668	230,567	230,567				
a Central	170,597	137,515	110,581	187,589	187,589	13.62-13.85	2,3,4,5 and 10 yers	5000	12.88
b State	37,047	31,208	26,087	42,978	42,978	13 85	10 years	100	14 00
5 Muncipal bonds (***) (all other approved securities)	43,920	42,840	42,450	43,920	43,630	14 0	10 years	..	14.00
(Of which, held by banks and LIC)	(37,330)	(36,416)	(36,085)	(37,330)	(37,087)				
B Commercial debt (1 to 5) (£)	122,913	113,916	104,491	134,351	117,090				
1 Certificate of deposits (CDs) (a+b)	20,727	10,981	7,691	26,000	15,000			35	14.00
a Sch Com Banks	16,316	8,017	5,571	21,503	13,052	9.50-12.0	90 days	.	..
b Financial Inst.	4,411	2,964	2,120	.			90 days	..	..
2 Commercial paper (CP)	76	604	3,264	4,511	1,500	12-14	90 days	10	11.25-11.60
3 Floating rate notes (FRNs)	3,500	3,000	2,500		2,000	14-16 (Linked to TB discount rates)	5 years	.	..
4 Inter corporate deposits	5,000	8,000	6,000	8,000	2500-3000	18-20	90 days to one year	..	..
5 Corporate debentures and bonds and PSU bonds (a+b)	93,610	91,331	85,036	95,840	95,840				
a Corporate debentures and bonds ($)	29,370	31,740	28,586	31,600	31,600	14-16	3-7 years	25	16-24
b PSU Bonds (centre and states)	64,240	59,590	56,450	64,240	64,240		5-10 years	100	
a Taxable	33,854	31,404	29,750	..	..	16.5-18 0	5-10 years		13.70
b Tax free	30,386	28,186	26,700	..	.	10 5	10 years		14.17-14.46
Memo Items:									
1 Inter-bank Call Money (@) (Annual turnover in brackets)	11,753 (2,098)	8,662 (1,703)	7,406 (2,251)	6,261	5,900	10.0-10.50	overnight	175-200	..
2 Investible funds of mutual funds including UTI	70,000	73,500	66,916	73,500	69,500	..	..	..	..
3 Size of repo transactions in treasury bills and government securities outside the RBI (average monthly data)	8,111	3,907	..	27,731 (Nov 1995)	2,598 (#)	..	..	..	..

(*) Secondary market data in column 9 for all government papers are from the RBI's SGL transactions. .. means not available/not relevant.
(**) Essentially discounted with the RBI.
(***) Data on holdings outside the banks and LIC are guestimates.
(£) Secondary market data are restricted to the NSE transactions.
($) Debentures include estimated convertible debentures.
(@) As per Section 42 returns of banks on "money at call and short notice" and call money borrowings from financial institutions (FIs).
(#) Monthly average for April-October 1996.
Notes: A few of the estimates like ICSDs are based on informed judgment.

Graph A: Daily Top-End Quotations of Call Money Rates, September 1996 to November 1996



Graph B: Spot Quotations for the US Dollar in the domestic Inter-Bank Market



absorption of Rs 682 crore as subscription to 364-day treasury bill (TB) on November 6 With the release of repo auction money on November 9 and also 0.5 per cent instalment of CRR (Rs 2,140) crore, the beginning of the fortnight saw call rates opening at 5 per cent but soon the rates firmed up and ruled in the higher range of 10 5-12.0 per cent until November 21 mainly due to a sizeable withdrawal of bank deposits for the Diwali festival (there was an absolute fall of Rs 980 crore in demand deposits between November 8 and 22) and the RBI's second repo auction which nevertheless evoked poor response at Rs 300 crore. This period saw banks taking recourse to export refinance to an extent. On November 21, the penultimate day of the reporting Friday, call rates opened at 10.25 per cent but again crashed to 3.0 per cent in the afternoon when FIs rushed in to lend and the banks had already completed their CRR obligation.

The last week of November witnessed call rates softening as the system saw sizeable inflows of funds (Table 4). The return of Rs 300 crore from the RBI repo on November 23, the recycling of the earlier Diwali cash withdrawals, coupon payments estimated Rs 1,140 crore and the expected cash injection on account of 6.25 per cent 1996 stock on December 1. Though the call rate opened at 10 per cent on November 26, it soon nosedived to a range of 1.5 to 3.0 per cent during the subsequent four days.

Foreign Exchange Market

The rupee rate in the domestic forex market depreciated somewhat until mid-November but recovered some lost ground by the month end. The RBI reference rate which opened at Rs 35.67 a US dollar steadily rose to 35.82 on November 15, but ruled between Rs 35.69/76 thereafter. The forex activities were guided mostly by continual intervention by the RBI which mopped up nearly $1 billion of cash dollars to liquidate that much of rolled-over forward contracts maturing in December and January. The pressure was added by the reduced FII net inflows of only Rs 310 crore as against Rs 839 crore in October. Apart from some repayments of FCNRA deposits falling due, November-December months were also expected to act as a build-up for the larger repayments in January-February when India Development Bonds mature. The authorities probably perceive that the rupee stood overvalued to the extent of about 7 per cent in REER terms *vis-a-vis* its level in March 1993 and that hence there was some scope for fall in its value. As a result of the relative stability in the exchange rate, the importers generally preferred to remain uncovered resulting also in lack of demand for dollars. The forward premia which experienced a rise during the first three weeks of the month generally fell in the last week (Graph B) when the call rates dipped to low levels. The six-month forward premium which steadily rose from about 6.16 per cent in the first week to 9.10 per cent in the third week fell to 8.40 per cent in the last week of the month (see *EPW*, December 7).

III
Primary Market in Gilt-Edged and Other Debt Instruments

Dated Securities

The lone auction of a medium-term government of India loan on November 26 received 145 bids for Rs 2,327 crore as against a notified amount of Rs 2,000 crore. The vigorous persuasion done by the RBI and the release of liquidity through the reversal of repo funds and tap bill liquidation brought in not only a minimum devolvement on the RBI (Rs 417.85 crore) and the PDs (Rs 48.50 crore) but also the cut-off yield was brought down by 20 basis points. It collected Rs 1,533.65 crore at 13.55 per cent for the five-year loan. Earlier, in May the

Table 2: Daily Quotations of Highs and Lows of Call Rates in Per Cent Per Annum: Simple Statistical Characteristics

	All Four Weeks of the Month	November 1996 Week Ended					All Four Weeks of the Month	October 1996 Week Ended			
		29	22*	15	8*	1		25*	18	11*	4
Mean	6.2	3.1	9.3	9.2	4.3	4.4	9.4	9.5	9.5	8.1	10.7
Standard deviation	3.7	3.0	2.4	2.2	2.8	2.5	1.4	1.1	0.5	1.8	0 2
Coefficient of variation (percentages)	61.6	99.3	25.4	24.4	64.6	56.4	15.2	11.6	4.8	22.3	1.8

* Data for reporting Fridays (RF) are omitted.

RBI had given 13.75 per cent for a 5-year paper. With the collection of this Rs 2,000 crore, the government completed over 90 per cent of its budgeted gross borrowings for Rs 33,400 crore for 1996-97. It is expected that with a large supplementary grant proposed for the central budget and the expected shortfall in revenues including the failure to achieve the PSU disinvestment of Rs 5,000 crore, the government may come to the market for borrowing beyond the budgeted amount. Also, since the net RBI credit to the central government is well below the expected levels (Rs 8,719 against Rs 18,496 crore last year) and so are the borrowings through the *ad hoc* TBs (Rs 6,495 crore against Rs 12,100 crore), it is likely that the government may raise the additional funds through private placement with the RBI towards the close of the financial year. It may be recalled that the government had similarly placed Rs 5,000 crore worth of securities with the RBI in March 1995.

91-Day Treasury Bills

The 91-day TB auctions of November produced certain peculiar results. First, the RBI showed its anxiety to bring down the discount rate so much so it even rejected all bids in one auction and accepted only Rs 2 crore in another. Even so the yield rate edged up somewhat. Secondly, despite a generally liquid situation, sizeable subscriptions devolved on the RBI and the PDs. Initially, the slide in the yield on 91-day TBs continued in November when in the auction held on November 1, it went down sharply from the earlier 8.83 per cent to 6.79 per cent In the auction of November 8, the impact of 14-day repo auction conducted by the RBI was felt and the yield firmed up to 7.23 per cent. It remained at this level in the next auction and then further firmed up in the November 22 auction. The level of yields on 91-day TBs as at November end was 8.19 per cent. The response in terms of number of bids and, amounts received was revealing. For the Rs 500 crore auction in November there were 89 bids for an amount of Rs 2,015.25 crore. For the subsequent notified amount of Rs 2,000 crore in four auctions, the bid amount was only Rs 981.58 crore (Table 5). In the second auction, while the number of bids received was 23, the amount received was one-fourth the amount received in the first auction. This could be because a large amount of funds was first locked up in tap bills and then in repo auction. In the auction of November 15, there were only 12 competitive bids for Rs 137.85 crore and the RBI rejected all of them accepting only one competitive bid for Rs 50 crore. The response came back to normal only in the auction of November 29 when out of 35 bids for Rs 596.40 crore, the RBI accepted 33 bids for an amount of Rs 500 crore at a discount rate of 8.16 per cent.

364-Day Treasury Bills

Taking advantage of easy liquidity in the earlier part of the month, the RBI attempted to realign the yields in the money markets. With low call rates and a comparatively high cut-off yield of 12.10 per cent offered in the October 25 auction of 364-day TBs, the investors' expectation of continuation of such high rates resulted in an overwhelming response bids towards the November 8 auction with 63 bids for Rs 1,590.55 crore. Taking advantage of this, RBI selected only Rs 682 8 crore from 14 bidders and drastically reduced the cut-off yield by 200 basis points to 10.10 per cent. However, such manoeuvrability was lost when the next auction on November 20 invited a meagre bid amount of Rs 197 crore out of which the RBI only Rs 55 crore and that too by paying a slightly higher cut-off yield of 10.40 per cent (Table 6).

Bonds Market

The bonds market was dominated by two issues, the one floated by the Maharashtra Krishna Valley DevelopmentBonds (Rs 250 crore) and the other by the Konkan Railway Corporation (Rs 150 crore). The MKVDC issue had a greenshoe option of Rs 50 crore with an effective return of 18.55 per cent on regular bond and 18.46 to 18.53 per cent on deep discount bonds (DDBs) of 7-year maturity. The retail investors, however, surprisingly remained apathetic towards both the issues Yet another development was the innovative Dutch auction introduced in the Indian market for the first time by the ICICI with a private placement of Rs 200 crore. (Under Dutch auction all bids received at maturity value higher than the cut-off value are rejected and all successful bidders get the maximum yield). The yield offered at 14.5 per cent for the 15-month regular instrument was significantly lower than the 16.15 per cent yield for the similar maturity paper issued in August. The IDBI's 'on tap' issue of one-year bond at 14 per cent as against 16 per cent earlier and the five-year bond at 15 per cent as against 17 per cent,

TABLE 4: ESTIMATED INFLOWS AND OUTFLOWS INTO THE BANKING SYSTEM

During the Week Ended	Inflows (Rupees, crore)				Outflows (Rupees, Crore)		
	Coupon Payments to Govern-Paper	Redemption	Others	Total	Subscription to Govern-ment Paper	Others	Total
			Estimated for November 1996				
November 8	5	606	-	611	927	943	1870
November15	1172	500	2200$	3872 *	50	19	69
November 22	403	531	-	934	102	-	102
November 30	801	1000	-	1801	2800	38	2838
Total	2381	2637	2200	7218	3879	1000	4879
			Expected for December 1996				
December 6	450	381	440	1271	950	-	950
Decembe r13	814	500	440	1754	500	-	500
December 20	82	515	430	1027	650	4000	4650
December 28	66	850	440	1356	650	-	650
Total	1412	2246	1750	5408	2750	4000	6750

* Excluding possible Diwali withdrawals (aggregate bank deposits fell by Rs 1,000 crore during the fortnight ended November 22) $ CRR release.

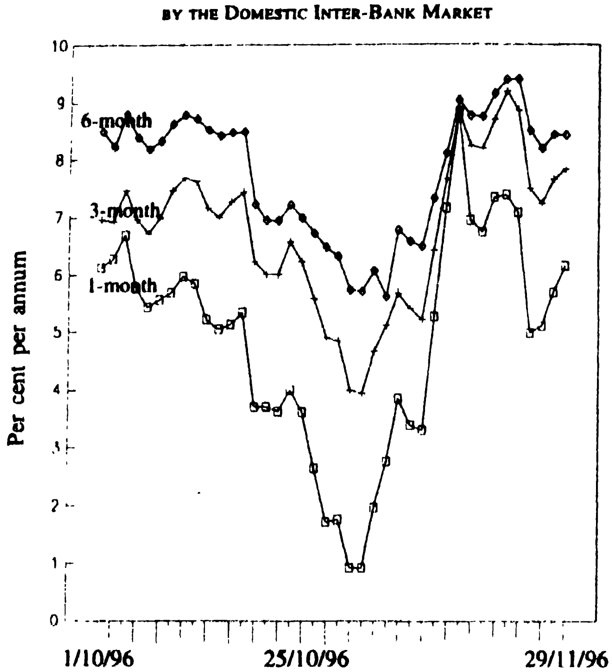
TABLE 3: CALL MONEY RATES

(Per cent per annum)

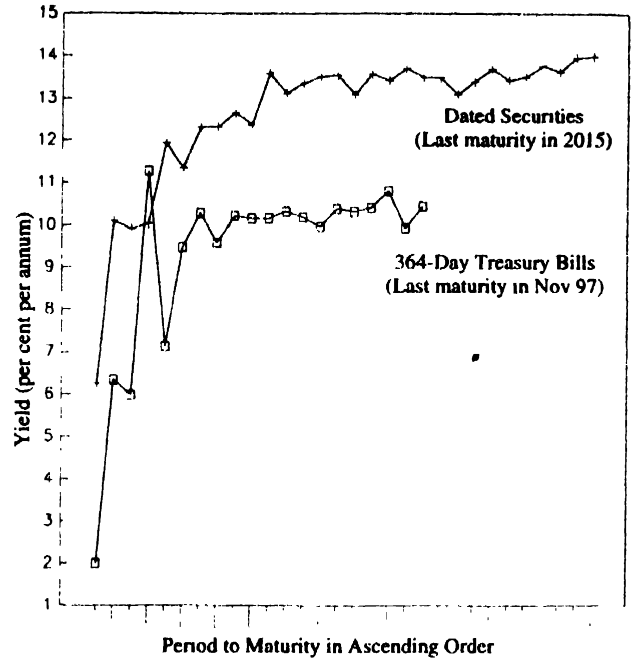
Items	November 1996					October 1996			
	29	22(RF)	15	8(RF)	1	25(RF)	18	11(RF)	4
Weekly range	0.50-10 00	0.25-11.00	7.00-12.25	0.25-11 00	1 50-8.00	0 10-11 00	9.00-10.25	0.15-10.25	10.40-10.90
	(18.00-28.00)	(0.50-40.00)	(20.00-60.00)	(0.25-130.00)	(15 00-85.00)	(0 50-17 00)	(12 50-19.00)	(1.00-23 00)	(14 00-18.00)
Weekend (Friday)	1.00-3.00	0.25-0.50	10 50-11.25	0.25-0 50	1.50-2.50	0 10-0.25	9.00-10.00	0.15-0.60	10.40-10.70
Weekly weighted average*	na	10.47	8.49	3.08	4.79	9.35	9.55	8.90	10.70
DFHI lending rates (range)	na	0.50-11.00	6.00-11.00	0.40-11.00	0.50-9 00	8.10-10.90	9.00-10 25	0.40-10.50	9.05-10.90

* Weighted average of borrowing rates reported to the RBI by selected banks and DFHI, weights being proportional to amounts borrowed.
Figures in the parentheses represent weekly range during similar period last year.

Graph C: Annualised Daily 1-Month, 3-Month, and 6-Month Forward Premia in Percentage for the US Dollar by the Domestic Inter-Bank Market



Graph D: Yield Curves for 364-Day Treasury Bills and Dated Securities – Weighted Average for November 1996



also reflected the downward movement in yield. However, all these issues did not receive favourable response due to lower yield.

Besides, six other PSUs entered the market for their private placements. The issues by Rajasthan SEB at 19.0 per cent and Punjab SEB at 17.16 per cent were extended due to poor investors' response. Similarly, the private placement issue by TFCI at 16.8 per cent was extended at it failed to garner the target amount in the scheduled open period. While NPC barely managed to achieve its targeted amount of Rs 100 crore, the lone tax-free issue of Rs 150 crore by KRC with an effective post-tax yield of 11.67 per cent appears to be sailing smoothly. The bond issue of KBJNL was also successful due to high effective yield of 19.7 per cent

One of the important reasons for some success of most issues by FIs and PSUs is that such debt instruments are eligible for permitted investments for various trusts, PFs, pension funds, banks, insurance companies, etc. Secondly, the FIs adopt a practice of indirect self-financing of their issues. These FIs lend money to their corporate clients as loans prior to the issue with the sole condition of investing in their issues. Though these issues become successful in the primary market, the secondary market remains adversely affected as the prices fell immediately after the issues because the corporates

Table 5 Auctions of 91-Day Treasury Bills

(Amount in rupees, crore)

Date of Auction	Notified Amount (Rupees)	Bids Tendered		Bids Accepted		Subscription Devolved on RBI (Amount)	Cut-off Price in (Rupees)	Cut-off Yield Rate (Per Cent)	Amount Outstanding (Rupees) @		
		No	Face Value (Amount)	No	Face Value (Amount)				Total	With RBI	Outside RBI
1995											
Nov 10	500.00	9	15.64	2	1.28	423.38	96 86	12.97	6500 00	764.71	5735.29
		(2)	(75.34)	(2)	(75 34)						
Nov 17	500.00	9	86.19	4	66.85	257.88	96.86	12.97	6500.00	1022.60	5477.41
		(3)	(175.27)*	(3)	(175 27)						
Nov 24	500.00	13	69 92	8	45 92	179.08	96.86	12.97	6500.00	1201.68	5298.33
		(2)	(275.0)	(2)	(275 00)						
Dec 1	500.00	9	97.63	5	91.13	267.07	96.86	12.97	6500.00	1468.75	5031.25
		(4)	(141.80)	(4)	(141 80)						
1996											
Nov 1	500 00	88	1965.25	15	488 40	0.00	98.30	6.92	6500.00	156.00	6344.00
		(1)	(50.00)	(1)	(11.60)		[98.33]	[6.79]			
Nov 8	500 00	20	322.33	9	177.33	62.78	98.23	7.21	6500.00	156.00	6344.00
		(2)	(250.00)	(2)	(250.00)	9.89*	[98.26]	[7.08]			
Nov 15	500.00	11	67.85	nil	nil	388.80	98.23	7.21	6500.00	218.00	6282.00
		(1)	(50)	(1)	(50)	61.20*					
Nov 22	500.00	10	45.00	1	2.00	343.87	98.00	8.16	6500.00	607.00	5893.00
		(1)	(100)	(1)	(100)	54.13*	[98.00]	[8.16]			
Nov 29	500.00	34	546 40	32	473.07	0 00	98.00	8.16	6500.00	951.00	5549.00
		(1)	(50)	(1)	(26.93)		[98.00]	[8.16]			

Figures in parentheses in cols 3 to 6 represent numbers and amounts of non-competitive bids which are not included in the total.
Figures in the square brackets under cols 8 and 9 represent weighted average price and respective yield.
* Development on primary dealers, exclusive of RBI. @ Outstanding amounts are estimated for last few weeks of November 1996.

who are armtwisted earlier start selling them to recover their cash.

The private sector market has finally seen visitation of bonds similar to junk bonds. For example, the NCD of JB Lab which received a credit rating of LA(P) by ICRA implying adequate safety is now offered at large discount of 42 per cent yield. Even the yield of Alkyl Almines NCDs went up to 129 per cent. The market is flooded with many such issues.

The private sector debt market recorded sizeable fall in private placements of debenture mainly due to (i) increased competition from NBFCs who still offer very high rates on their fixed deposits, (ii) fear psychosis of defaults, and (iii) saturation of debt issues. With demand coming down, the effective yield on many private companies' NCDs went up to 25 per cent. The overall yield curve in the private debt market has an upward shape up to medium- term and downward in the longer-term.

Commercial Paper

As per the credit policy announcement in October and the subsequent issuance of the guidelines on commercial paper by the Reserve Bank, there was new life in the primary market for the instrument. Nearly 40 companies had obtained credit rating for CPs. The volumes of fresh issues went up from mere Rs 200 crore in September to Rs 1,500crore in November. Of these around 25 companies had already issued their CPs during October. Interest rates on the paper had gone down to as low as 11-12 per cent offering an attractive low cost borrowing option to the corporates. Banks were, however, not so co-operative to the corporates in allowing them access to the CP avenue as that meant loss of interest income for the banks. It is necessary for the corporate sector to obtain a no-objection certificate from their bankers before approaching another banker for issuing CP. The RBI in its circular detailing the CP guidelines clarified that banks could not refuse a corporate unit to borrow from another bank through the CP if it had met all the eligibility criteria. This would make life easier for corporates.

Certificates of Deposits (CDs)

Much of the issuance of CDs in November originated from private banks which experienced asset-liability mismatches. For example, UTI Bank issued CDs worth Rs 500 crore and Centurian Bank Rs 100 crore. As a result, the primary CD rates which ruled around 11-12 per cent in the first week of November increased to around 12-13.5 per cent in the third week of the month.

ICD Market

The inter-corporate deposit (ICD) market has been undergoing a turmoil since the past several months. News of defaults in this market has been rampant with lender companies resorting to legal action in many a case. During November, three cases of default and the subsequent legal action came to light. The Leela group filed a criminal complaint against Modiluft for defaulting in the repayment of ICD. Modiluft managing director and vice-president were summoned before the Mumbai magistrate; Modiluft had raised Rs 5 crore through ICD from Leela group's finance company in February. The Mumbai-based Ankit Traders filed a criminal complaint against the Hyderabad-based Transgene Biotek for default of Rs 50 lakh borrowed through ICD; and the public sector Cement Corporation of India also failed to service its obligation for repayment of around Rs 24 crore of ICD. Similarly, Vardhman Spinning and General Mills had to resort to legal course for recovering Rs 1 crore worth of ICD from Real Value Appliances. Though the criminal complaint filed by lenders related to bouncing of cheques issued by borrower companies towards repayment of ICD, the fact that these companies defaulted for repayment of a small sum was indicative of the difficult financial position of the corporate sector. The lenders became extra cautious with the activities limited to only subsidiary companies. As the ICD market being constantly bedevilled by frequent defaults and rollovers, the ICD rates continued to rule firm around 16-18 per cent for top rated companies and 21-25 per cent for low rated companies.

IV
Secondary Market

Dated Securities

Yields in the secondary market moved in tandem with the call rates. The high activity in the government securities market witnessed during October and early part of November tapered off in mid-November as

TABLE 6. AUCTIONS OF 364-DAY TREASURY BILLS

(Amount in rupees, crore)

Date of Auction	Bids Tendered No	Bids Tendered Face Value (Amount)	Bids Accepted No	Bids Accepted Face Value (Amount)	Cut-off Price (Rupees)	Cut-off Yield Rate (Per Cent)
1995						
Nov 8	6	19 00	6	19 00	88.50	12.99
Nov 22	11	40 50	5	30 50	88 50	12.99
1996						
Nov 6	63	1590 55	14	682 80	90.83 (90 96)	10 10 (9.94)
Nov 20	15	197	6	55 00	90 58 (90 67)	10.40 (10.29)

Figures in the brackets represent weighted average price and the respective yield.

TABLE 7 RBI's REPO AUCTION

Date Sale	Date Repurchase	Repo period (No of days)	Bids Tendered Number	Bids Tendered Amount (Rs Crore)	Bids Accepted Number	Bids Accepted Amount (Rs Crore)	Cut-off Repo Yield (Per Cent)
Nov 5	Nov 9	4	42	1325	29	932	4 00
Nov 9	Nov 23	14	22	725	1	300	5.48

TABLE 8. REPO TRANSACTIONS IN GOVERNMENT PAPER
(Other than with the RBI) – November 1996

Repo Period in Number of Days	Amount Involved) (Rupees, Crore)	Range of Interest (Per Cent Per Annum)	Weighted Average Interest Rate (Per Cent Per Annum)
A Dated Securities			
3	582.00	3.25-9.25	6.29
4	711.00	4.00-9.50	7.20
5	125 00	9.40-9.50	9.43
7	19 00	8 50-10.50	9.55
9	30.00	10.80-11.00	10.87
10	50.00	8.00	8.00
11	10.00	9 85	9.85
12	5.00	8.00	8.00
14	1569.00	7.00-11.00	9.44
All Issues	3101.00	3.25-11.00	8.33
B 364-Day TBs (All Issues)	200.85	5.75-9.50	7.27
C 91-Day TBs (All Issues)	45.00	10.35-11.00	10 54

Appendix Table: Secondary Market Operations in Government Paper, RBI's SGL Data

(Amount in rupees, crore)

Descriptions	29 Amt	29 YTM	29 CY	22 Amt	22 YTM	15 Amt	15 YTM	8 Amt	8 YTM	1 Amt	1 YTM	1 CY	Total for the month of November 1996 Amt	Total YTM	Total CY
	Week Ending November 1996: Yield to Maturity on Actual Trading														
1 Treasury Bills															
A 91-Day Bills	261 20	7 17		264.45	8.15	162.00	8.07	303.73	6.30	865.52	7.01		1856.90	7.17	
of which															
i) Jan 25, 1997	15 50	8.61		16.50	9 29	20.00	8.94	10.23	6.85	344 77	8.26		407.00	8.31	
ii) Feb 1, 1997	34 48	8 53		35.00	9.37	10.00	7.05	189.00	6.68	-	-		268.48	7 28	
B 364-Day Bills	104 32	9.96		130 90	10.18	122.32	8.95	284.75	9.65	467.28	11.02		1109.57	10.24	
of which															
i) Oct 10, 1997	6 00	10.01		12.90	10.52	35.32	10.23	172 25	9.55	240.15	11.06		466 62	10.41	
ii) Oct 24, 1997	15 00	10.01		-	-	5.00	10.47	60.00	9.86	155 00	11.27		235.00	10.81	
iii) Nov 7, 1997	-	-		35 00	10 04	40 00	9 99	30.00	9.76	-	-		105 00	9 94	
iv) Nov 21, 1997	-	-		20 00	10 45	-	-	-	-	-	-		20 00	10 45	
2 GOI Dated Securities															
A Converted (Per Cent: Year)															
i) 13 50, 1998	10.00	11 47	13 17	25.00	11.58	92.20	11 50	103 75	11 28	441.00	12 23	13.28	671.95	11 94	13.23
ii) 12 00, 1999	-	-	-	10.00	12.58	18 50	12 35	210 00	12 22	75 00	12 61	12 03	313.50	12 33	12.05
iii) 11 75, 2001	10 00	13.43	12.47	-	-	7 20	13.23	91.50	13 32	437.31	13.57	12.50	546.01	13.52	12.49
iv) 12 50, 2004	81 00	13.69	13 22	18.55	13 77	23 00	13.71	31 86	13 68	79 00	13 68	13 06	233.41	13 69	13 17
Sub-total	101 00	13.44	13.14	53 55	12 52	140.90	12.06	437 11	12.33	1032.31	12 93	12 84	1764 87	12 73	12.78
B Regular (Per Cent Year)															
i) 6 25, 1997	0 01	6.25	6.25	-	-	-	-	-	-	-	-	-	0 01	6.25	6 25
ii) 12 00, 1997	-	-	-	-	-	-	-	-	-	53 50	10 10	11 87	53 50	10 10	11 87
iii) 13 25, 1997	-	-	-	-	-	-	-	5 00	8 87	19 00	10 19	12 99	24 00	9.91	12 96
iv) 13 50, 1997	120.00	9.88	13.16	175 00	10 23	227.00	9.45	351.59	9.54	322 64	10 94	13 24	1196 23	10 04	13 21
v) 13 62, 1998	31 00	11 22	13 15	10.00	11 36	45 00	10 81	70 00	10 88	136 00	11 78	13 25	292 00	11 34	13 16
vi) 13 65, 1998	-	-	-	12.00	12 36	-	-	10.00	11 99	11 38	12.53	13 43	33 38	12 31	13.34
vii) 13 65, 1999	-	-	-	-	-	-	-	20 00	11 79	98.00	12.85	13 45	118 00	12.67	13 41
viii) 13 70, 1999	5.00	13 15	13.54	0 06	11 76	-	-	15.00	11 94	91.50	12.43	13 34	111 56	12.40	13.33
ix) 14 13, 1999(FRB)	5.00	13 61	13.97	-	-	-	-	-	-	-	-	-	5 00	13 61	13.97
x) 10 75, 2000	-	-	-	-	-	-	-	-	-	10.00	13 14	11 53	10 00	13.14	11 53
xi) 11.64, 2000	15.00	13.32	12.22	20 00	13 38	99.50	13 30	50.00	13 08	290.00	13 45	12 28	474.50	13 37	12 26
xii) 13 55, 2001	675 75	13 55	13 55	-	-	-	-	-	-	-	-	-	675 75	13 55	13 55
xiii) 13 75, 2001	1 62	13 51	13 64	-	-	-	-	5 00	12 96	5.00	13 12	13 47	11 62	13 10	13.46
xiv) 13 82, 2001	0 73	13 40	13 60	-	-	2 00	13.20	7 00	13.24	37 00	13 66	13.74	46 73	13.57	13 69
xv) 13 85, 2001	-	-	-	30 00	13 31	5 00	13 18	17 95	13 24	180 00	13 48	13 69	232.95	13 43	13.67
xvi) 11 00, 2002	-	-	-	-	-	15 00	13.70	-	-	-	-	-	15 00	13 70	12 25
xvii) 11.55, 2002(I)	5 00	13 68	12.62	15 00	13 71	-	-	10 00	13 34	40.00	13 45	12.51	70.00	13 51	12 54
xviii) 11 75, 2002	-	-	-	-	-	0 13	13 50	-	-	-	-	-	0 13	13 50	12 11
xix) 13 31, 2002	-	-	-	-	-	-	-	-	-	5.00	13.10	13 21	5 00	13 10	13 21
xx) 13 82, 2002	5.00	13.40	13.60	19 63	13 41	5 05	13 23	25 00	13 31	62.00	13 46	13 63	116 68	13 41	13 60
xxi) 13.85, 2005	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
xxii) 14 00, 2005	107 50	13.47	13.64	36 50	13 49	66 00	13 49	17.00	13 54	21.99	12 89	13 94	248.99	13 43	13 68
xxiii) 14 00, 2005(INST)	-	-	-	-	-	1 60	13.51	0 01	13.48	-	-	-	1 61	13 51	13.67
xxiv) 11 50, 2006	5 00	13 92	13.15	-	-	0 90	13 86	-	-	15 00	13 71	13.01	20 90	13 77	13 05
xxv) 13 85, 2006	132.35	13.61	13.64	5.85	13 64	22.00	13 64	14.10	13.65	32.98	13 69	13 74	207 28	13 63	13 67
xxvi) 7 50, 2010	2 40	13 97	12 25	-	-	-	-	-	-	-	-	-	2 40	13 97	12 25
xxvii) 10 50, 2014	0.00	10 50	10.50	-	-	-	-	-	-	-	-	-	0.00	10.50	10.50
xxviii) 11 50, 2015	-	-	-	14.87	14 00	-	-	-	-	-	-	-	14.87	14 00	13.76
Sub-total *	1111 36	13.08	13.49	338.91	11.71	489 18	11.34	617.65	10.74	1430.99	12.45	13 09	3988 10	12.16	13.22
C Zero coupon (Per Cent: Year)															
(i) ZCB, 1999	18 00	12 92	8.98	-	-	5.00	2 41	40.00	12.46	162.38	13.05	8.99	225.38	12.70	8.39
(ii) ZCB, 2000	-	-	-	20 00	13 54	-	-	20.00	13.89	38 30	13.64	10.53	78 30	13.68	10.71
(iii) ZCB, 2000(III)	10.00	13 53	11.29	5.00	13 51	10.00	13 37	56.00	13 08	126.00	13.57	11.43	207.00	13.42	11.35
(iv) ZCB, 2000(III-II)	134.22	13.52	12 97	5 00	13 49	16 00	13.35	154.00	13.12	344.22	13.50	13.10	653.44	13 41	13.02
Sub-total	162.22	13.45	12.43	30.00	13.53	31 00	11 59	270.00	13.07	670.90	13.41	11.64	1164.12	13.29	11.67
(A+B+C)	1374.58	13 15	13 34	422.46	11 94	661 08	11 50	1324.76	11.74	3134.20	12.81	12.70	6917.08	12.50	12.85
D RBI's Open Market Operations (Per Cent)	60.00	13.52	13.84	-	-	30.10	13.53	622.11	13.59	866 78	13.61	13.71	1578.99	13.60	13.70
(A+B+C+D)	1434.58	13.17	13 36	422.46	11 94	691.18	11.59	1946.87	12.33	4000.98	12.99	12.92	8496.07	12.70	13.01
3 REPO															
(i) 91-Day T Bill	20.00	-	-	25.00	-	-	-	-	-	-	-	-	45 00		
(ii) 364-Day T Bill	20 00	-	-	40.00	-	11.20	-	89.75	-	40.00	-	-	200.95		
(iii) Govt Securities	490 00	-	-	777.00	-	659 00	-	635.00	-	540.00	-	-	3101 00		
Sub-total	530 00			842.00		670 20		724.75		580.00			3346.95		
4 State Govt. Securities	10 23	13 87	13 89	22.18	13 79	0 26	-	-	-	0.02	13.44	13.63	32.69	13.81	13.82
Grand total	2340 33			1681.99		1650.96		3260.10		5913.80			14842.18	-	-

(-) means no trading YTM = Yield to maturity in percentage per annum CY = Current yield in per cent per annum * Yield rates of these sub-groups of t-bills and dated securities have been used for the graphs.

Notes: 1) Yields are weighted yields, weighted by the amounts of each transaction.
2) Current yield has not been worked out for treasury bills.

TABLE 9: OPERATIONS OF NATIONAL STOCK EXCHANGE (NSE) DURING NOVEMBER 1996 – ACTUAL TRADED AMOUNT

(Amount in crore of rupees)

Descriptors	Week Ending November					Total during		
	29	22	15	8	1	November	October	September
1 Treasury Bills	143 50	160.90	98.00	165.00	435.00	1002.40	848.57	417.24
i) 91-day Bills	92.50	56.30	60.00	105 00	235.00	548.80	388.36	292.24
ii) 364-day Bills	51.00	104.60	38.00	60 00	200.00	453.60	460.21	105.00
iii) Repo	-	-	-	-	-	0.00	0.00	20.00
2 Dated Securities	538 03	221 49	470.34	712.91	1644.44	3587.21	2696.10	1383.05
A GOI Securities	533.79	216.22	462.14	712.91	1644 42	3569.48	2691.52	1366.77
i) Converted	110.20	52.52	80.54	339.40	592.00	1174.66	894.10	256.00
ii) Regular	318.09	125 43	363.40	287.51	734.97	1829.40	1145.95	727.36
iii) Zero Coupon	105 00	33.00	10 00	86.00	317.43	551.43	646.47	331.41
iv) Floating Rare Bonds	-	-	-	-	-	0.00	0.00	5.00
v) GCB	0 50	-	-	-	-	0.50	5.00	0.00
vi) Repo	-	-	-	-	-	0.00	0.00	47.00
B State Govts. Stocks	4 24	5.27	8 20	-	0.02	17.73	4.58	16.28
3 PSU Bonds	33 90	61.16	23 00	69.81	52.93	240.80	97.22	67.61
i) Tax free	8 00	46.16	23 00	30.81	15 23	123.20	43.18	42.60
ii) Taxable	25.90	15 00	-	39.00	37.70	117.60	54.04	25.01
4 Commercial Papers	2.00	15.00	-	-	-	17.00	2.00	9.00
5 Certificates of Deposits	5 00	-	4.90	-	5.00	14 90	35.20	20.55
6 Debentures	0 81	0 70	-	4.28	8.16	13.95	3.07	25.06
7 Floating Rate Bonds	-	20.00	-	-	-	20.00	1.71	23.60
8 ID+IB+BB+PD	23 65	38 73	5.00	39 80	12 49	119 67	67.91	102.02
Grand total (volume)	746.89	517.98	601.24	991 80	2158.02	5015.93	3751.78	2048.13

- No trading ID Non-SLR Institutional Bonds IB SLR Institutional Bonds GCB Government Compensation Bonds BB Bank Bonds. PD Promissory Note. CN Company Notes

the overnight rates firmed up. The activity once again picked up in the last fortnight of the month as calls eased to sub-normal levels of 2-3 per cent. The interest was largely in short-term papers such as TBs and short maturity securities in the initial part of the month as there was uncertainty regarding call rates. As per the RBI's SGL transactions, the largest transaction worth Rs 1,196 crore took place during November in the 13.50 per cent 1997 paper. The interest in short-dated paper brought about a fall in the yields on these papers. Yields at the very short end – less than 14 days – came down by 200 basis points whereas those on papers with less than 360 days maturity fell by 50 basis points. As prices of securities fell with the rising demand in the second half of the month, the yields once again firmed up across the maturity spectrum although short-dated maturity paper showed a sharper rise. Prices of 13.50 per cent 1997 and 13.62 per cent 1998 papers shed 120 paise and 85 paise, respectively, in one fortnight. The zero coupon bond maturing in 2000 also shed 80 paise (Appendix Table).

OMO and Repo Auctions

After a long period, the Reserve Bank initiated an active open market operation (OMO) policy through repo auctions, apart from the usual sale/purchase window. Such active OMO was geared towards sterilising the excessive liquidity injected into the system by way of RBI's intervention in the forex market, and also developing market reference rates. The repo auction system has been resumed after a gap of 20 months. During the month, RBI transacted liquidity worth of over Rs 2,800 crore from the system which resulted in firming up of secondary market government securities yield rates.

Repo Auction by RBI

The RBI's repo auctions, which provided the banks with an outlet for investing short-term surplus liquid funds and which were suspended on February 3, 1995 after the emergence of stringent liquidity conditions, were resumed during November 1996. While the first 4-day repo attracted substantial bids, the second 14-day repo failed to evolve such a response. On November 4, RBI undertook 4-day repo auction. RBI received 42 bids worth of Rs 1,325 crore, out of which RBI accepted 29 bids worth of Rs 932 crore at 4 per cent. The absorption of such large liquidity out of the system had the neutralising effect on the securities market as reflected in rapidly crashing yield rates. For example, the Zero Coupon Bond 2000 AD lost 12 paise in a single day from Rs 62.88 in the morning to Rs 62.75 in the afternoon.

Similarly, the Reserve Bank introduced 14-day repo auction almost after 30 months on November 9 – a day on which the RBI released Rs 2,130 crore by way of 0.5 percentage cut in CRR. In the said auction, Reserve Bank received 22 bids worth of Rs 725 crore out of which it accepted only one bid for Rs 300 crore at a cut-off yield of 5.48 per cent (Table 7) as against the market expectation of 7 to 7.5 per cent.

Besides the deployment of repo auctions, RBI also transmitted its policy through periodic changes in its sale and purchase prices of government securities. On this window alone, RBI mopped up liquidity worth of Rs 1,579 crore during the month.

Repo Transactions Outside the RBI

The repo market route for such short and non-DTL attracting duration as three days has become a regular funding mechanism for the banks' overnight needs. Such repos interestingly were undertaken at much somewhat higher yield rates (ranging from 6.3 per cent to 10.9 per cent) than the RBI repo route (Table 8). The non-RBI repos aggregated Rs 3,352 crore during November as compared with Rs 2,914 crore in October.

Yield Rate

Reflecting the easiness in short-term liquidity and overall uncertainty regarding the long-term rates, the yield curves for both dated securities and 364-day treasury bills have generally remained flat (Graph D).

Other Debt Instruments

The secondary transactions in PSU bonds, both taxable and tax-free, have steadily increased in recent months. Likewise, in commercial papers (Table 9).

[V P Prasanth and Refiq L Ansari have rendered considerable help in the preparation of this review]

Minor Forest Produce and Rights of Tribals

Vidhya Das

For the ostensible purpose of protecting the right of the tribals to their livelihood, government policies have in fact been dispossessing the tribals from access to local resources and maintaining their own economy. The struggle waged by Mandibisi Mahila Mandal in Orissa for control over minor forest produce is just one case of tribal assertion against unjust government machinery.

IN 1953, 1,000 tribal women went to meet the then chief minister, Nabakrushna Choudhury to demand that the tamarind tree leases to private parties be withdrawn in the interests of people living in tribal areas Verbally, the chief minister agreed, but nothing happened in practice. Four decades later history repeated itself, when women went and demanded of Biju Patnaik that they be allowed to collect and sell minor forest produce (MFP) to which the chief minister agreed but then nothing happened. So the struggle for rights over MFP is an old one, and will probably continue for time to come

The government of India and the state governments have taken up the implementation of numerous anti-poverty programmes in tribal areas. While the objectives of these programmes may be commendable, their actual impact for poverty alleviation and development of marginalised groups is severely undermined by the role of many non-monetary policies which are quite insensitive to the ground realities in tribal areas. The policies of the Orissa government regarding collection, sale and processing of MFP are a case in point. Though these items provide a sizeable revenue to the state, the tribal people who spend long hours to collect it are not allowed to stock, process or sell it in the open market. The government controls these activities through a system of leases and permits which are granted on the whim of political leaders with no clearly defined criteria. Beyond the levy of a fixed amount of royalty there are no terms and conditions either. The lease from the government amounts to a virtual sanction to exploit and loot the people in tribal area with regard to the particular item of forest produce. The lessee with the authority of his lease calls the tune as per the prices, the method of procurement (with quantity measurement units ranging from improvised volume units to weights using rock pieces), as well as the stage of processing required before the primary collector can sell it. All this is enforced with the able assistance of the forest department. On the other hand, where government corporations like the tribal development co-operative corporation (TDCC) have taken the lease for certain items, the normal practice is to sublet their lease to the local businessmen, who then carry on in their usual exploitative manner.

Struggle of Mandibisi Mahila Mandal

Confronting this every day, and after having gone for dialogue with the chief minister, the women of Mandibisi G P, Rayagada district took a brave step: they formed the Mandibisi Mahila Mandal and started collecting the MFP item, hill brooms, by buying it from the primary tribal collectors assuring fair price and exact weighing to them. They thus effectively prevented exploitative private traders and crooked sub-agents of the TDCC from operating in the area and cheating the tribal people. They had repeatedly petitioned the district and state administration for permission of collection and sale of the hill brooms.

They took this step with the firm conviction that the government would legalise their collection, ensuring a fair deal to them, unlike the TDCC, whose offer of sub-agentship allowed the Mahila Mandal but a 2 per cent commission, with no margin over the government's fixed procurement price. This incidentally was also the deal with the sub-agents who usually operated in the area, and which gave these agents a free licence to exploit and cheat the tribal people. Admittedly though, under the terms and conditions offered by the TDCC, the traders had few other options, even if they had wanted to be fair to the people.

The government did consider other options in favour of the Mahila Mandal. But it was hampered by the legal constraint of the TDCC having the lease for the hill brooms till the end of a period, hitherto unspecified. Though ostensibly working for the welfare of the tribals, the TDCC was loath to relax its lease in favour of the Mahila Mandal (whose membership is more than 80 per cent tribal). On the other hand, there is evidence to show that the TDCC permitted the sub-agents to carry on trade at their own terms and conditions. After numerous meetings and discussions, the department of panchayati raj government of Orissa issued a letter to the Mahila Mandal that the TDCC shall appoint the registered DWCRA groups as additional agents in their locality and grant licences to them for collection and marketing of finished MFP items through Orissa Rural Marketing Apex Society (ORMAS) which was ready to buy the Mahila Mandal's stock at Rs 7 per kg. The letter further invited the concerned groups to become members of the DSMS, the district branch of ORMAS. This appeared to be a positive action on the part of the state. The Mahila Mandal members responded by taking a loan for training of hill broom binding so that they could sell to ORMAS.

But they were shocked when on May 28, 1995, the stock of brooms collected by the Mahila Mandal was forcibly taken away by the forest department in the presence of official representatives of the TDCC. Several months passed by. Numerous officials made enquiries into the case. The Mahila Mandal members were told that they would have to accept payment for 70 quintals of broom stock when more than double the quantity (174 qtls) had been collected. Even if the weight loss due to drying, wastage on storing, etc, is taken into account, the eventual weight would reduce by 20-30 per cent at the most. Why were the departments and TDCC indulging in cheating? What happened to the brooms taken away?

On August 19, 1995 the revenue divisional commissioner (RDC), southern division came for an enquiry. The forest department officials and the Kashipur branch manager of the TDCC stuck to their statement of 70 qtls, and claimed the Mahila Mandal members wrong. On this point of contention it was decided that brooms would be returned to the store from where they had been removed, as the exact quantity of stock could not be determined. A deadline of August 31 was given, but went unheeded. After a long wait, the conservator, Koraput, took up the case. In January 1996, he personally went to Mandibisi and gave an assurance to the members of the Mahila Mandal that their stock would be returned as per the decision of August 19. Two truckloads of brooms were off-loaded in the storehouse. The store was only partially filled. The members refused to receive the brooms till the stock was returned as per the decision taken during

the meeting with the RDC. The forest department locked the storehouse.

The women went for a public interest litigation to the Orissa High Court. The court, too, chose not to consider rights of tribal people, and referred the matter to the secretary of the department of forests "to dispose of the application of the petitioner in accordance with the provisions of the Act and the rules and communicate the order to the petitioner within two months of the receipt of intimation of the order". On September 28, 1995, a letter was issued by the department to the secretary of Mandibisi Mahila Mandal informing that it was not possible to give lease for those MFP items which had already been leased out to the TDCC. Yet, the letter continued, the Mahila Mmandal may apply for 10 items (listed out in the letter, and most of them not available locally) which had been leased out to the Utkal Forest Produce (UFP). The letter further states that after the end of the lease period of the TDCC, the Mahila Mandal may apply to the department of forest and environment for consideration. The letter, however, does not state when the period of lease held by the TDCC terminates, nor the MFP items held in lease by the TDCC.

TDCC and Selling of Tribal Rights

The TDCC has been set up with the stated and explicit purpose of facilitating market, and ensuring a fair price, for tribal products. Its objectives are as follows:

To procure surplus agricultural produces and minor forest produces from the tribals at a fair and remunerative price, and arrange for their marketing.

To supply essential commodities to the tribals at fair price.

To arrange for processing of procured commodities to add value to the product with the view to increasing profitability and thereby providing employment to them

Advancing for consumption-cum-production loan to the tribals to meet their resource requirements for crop raising and also for meeting their consumption needs

And further, the role of the corporation is enumerated as below:

The main role of the corporation is to uplift and boost the tribal economy and safeguard the interest of the tribals by marketing the tribal produces through the TDCC by way of giving a good support price for their surplus agricultural products and MFP.

Despite this clear purpose, the actual working of the TDCC is achieving just the opposite. The government constitutes a price fixation committee at the district level every year to fix procurement prices of MFP items. The agency which has the lease has to pay these minimum prices to the collectors. Yet surveys indicate that most MFP items are sold by the primary collectors at rates less than 50 per cent of the fixed procurement price. In the case of hill brooms, the actual price varies between one-third and half the procurement price. Most transactions with the primary collectors are made using approximate volume measurements. Standardised weights are almost never used. In many cases, people report, stones are substituted for the standard weights.

Though TDCC would like to project an image of the benign arm of a protective state, there has been consistent failure of the TDCC to give the primary collector the declared price. The TDCC's inefficiency in

procurement has enabled the petty traders and the local businessmen to secure a major market, amounting to more than two-thirds for most of the items held in lease by the TDCC. According to the reports of the corporation, "Owing to continuous loss sustained by it, the corporation's share capital has been completely eroded and the business activities at present are being carried on by borrowing". The interest on loans taken by the TDCC as working capital, comes to about two crore rupees annually. Running losses since inception, its cumulative loss up to the year 1993-94 amounts to Rs 31 crore. The corporation has an overhead cost of Rs 1.81 crore annually, against which the government releases a managerial subsidy of Rs 20 lakh per annum, which is not even enough for one month's salary. The TDCC is inefficient, which has forced it to surrender six MFP items: Siali leaves, soap nuts, patal garud (a medicinal herb), sabai grass, siali fibre and lac. But additionally, the TDCC is costing the state substantially for its maintenance The TDCC also owes several crores of royalty to the state government.

A series of other products have been contracted by private parties. The UFP has a 10 year lease for 29 MFP items. Thus, despite the existence of the TDCC, the tribal is mostly left at the mercy of the private trader. These agencies holding the lease for various items over the entire state, play havoc with the pricing. In many divisions, sal seeds, which have been leased out to UFP and Preeti Oils have not been procured since 1995. The government has also chosen to cut down the procurement price for sal seeds from Rs 2.50 to Rs 1 75 per kg to facilitate the operations of these companies. The tamarind lease for the entire Koraput division, which had been held by the TDCC till 1994, was handed over to a private businessman in 1995. But the Mandibisi Mahila Mandal, which have been requesting permit for hill brooms for the last three years, has been refused permit this year too.

In a study titled 'Forest Policy and the Rural Poor in Orissa', N C Saxena, the director of National Academy of Administration, notes, "the present arrangement in Orissa of leasing entire forest divisions to private industry is even worse than the system of appointing labour contractors, which was abolished in the late 1960s". Stating the case of Orissa government's decision to assign bamboo forests to industry, appointed as sub-agents of the OFDC, Saxena points out, "the order appointing industry as 'raw material procurer' goes to the extent of stating that other terms and conditions may be settled on consultation with the industry. This must be the only case in government, where lessees are appointed first and then left free to lay down their terms." The study points out that the poor and the landless are forced to meet their demand for bamboo by stealing while the industry gets subsidised bamboo. The cost of bamboo for the industry works out to 15 paise per piece, while local cultivators who own land have to buy at Rs 4.30 per piece. To the landless, even this facility is denied.

The commercial importance of MFP has led the state to nationalise almost all the important MFP items. This has effectively cut down the number of legal buyers, and denied a fair price to the gatherers. However, contractors, who must now operate with higher margins to cover uncertainties with the government agencies, and underhand deals with the police and other authorities, still manage entry through the backdoor. On the other hand, across-the-border smuggling operations enable a higher pricing as these do not have to deal with state controls. This smuggling goes on unchecked and extensively in most border areas.

The case of Mandibisi Mahila Mandal is not an isolated case. In numerous instances across the state, there is a persistent struggle of tribal and other indigenous communities to access and use their forest and land resources. Government policies and their misuse is increasingly denying the tribals the access to their livelihood needs. As a sequel, the government has been able to ensure neither the due revenue, nor the conservation and protection of the forest resources. All this amounts to a blatant violation of the human rights of these communities. The government needs to answer how it can talk of and promote liberalisation, while at the same time throttle its own people with policies of unjust controls, biased completely in favour of private sector interests.

Presently, a collective and concerted movement born out of the experiences of past attempts of various local groups and voluntary organisations is on to consolidate the numerous efforts and highlight the negative impact of present state policy on MFP on tribal communities. Thus, dialogues have been initiated in all the tribal districts, and a sharing of the experiences of different groups concerning the demand for rights over MFP is being taken up. District and block level committees have been formed, and it has been proposed that as a next step, the campaign should be carried out at the state level. One of the significant outcomes of this struggle is the formulation of an alternate policy document concerning MFP. The main points of emphasis of this document are: A clear and transparent policy concerning minor forest produce which ensures that the primary collectors get no less than the equivalent of the declared minimum daily wage rate on the sale of MFP items; stops the monopolistic leasing out of MFP items to private interests and corporations and enables Mahila mandals, village groups and panchayat level organisation to collect and sell minor forest products in the open market for a competitive prices; provides support to village level organisations for training, for skill development and marketing, and for the setting up of processing units for minor forest produce items; enables the formation of a district level board that acts as a channel of information regarding market, pricing, government programmes and schemes for MFP marketing and processing; prohibits entry to large-scale corporations into those areas of processing of minor forest produce which can be taken up by small-scale industries.

That this policy statement has the backing of the people in tribal areas was amply demonstrated on March 29, the anniversary of martyrdom of Lakshman Nayak, a tribal freedom fighter from Koraput, when thousands of people in the tribal districts of Rayagada, Koraput, Phulbani, Kalahandi, Nuapada, Angul and Gajapati, demonstrated in front of their respective collectorates, demanding rights for collection and marketing of minor forest produce and showed solidarity with the Mandibisi Mahila Mandal and the numerous other groups that have been harassed by the forest department.

Monopolistic trade policies are the surest way to kill initiative and the market, and deny justice to the producers. What is the justification for a democratically elected government to liberalise its economy for inviting foreign companies, while it persists in destroying the economies of its own indigenous communities?

If, as has been suggested in the policy alternative, people are allowed rights over their MFP and are enabled to access the technology and skills required to process it then the tribals would get requisite prices for their items. Local processing units would ensure that resources remain within the community. Rather than talking of exit policies and running after investments from multinational corporations to give a false boost to the economy, the government should consider how best it can use the skills and resources of the people for the wholesome and balanced growth of the economy.

For a Better Deal

Debaranjan Sarangi

The state marketing agency in Kandhamal division of Orissa has stopped buying and marketing plates made from 'siali' leaves, a minor forest produce, threatening the only means of livelihood of the tribals.

WHO should have control over the natural resources – the indigenous tribals or the withering state – this debate has come up once again in the district of Kalahandi in Orissa because of the impasse over the trading of 'siali' plates. The Agency Marketing Co-operative Society (AMCS), Tikabali, the sole purchaser of siali plates in the district has stopped its collection from the tribals because of enhancement of procurement price by Rs 2 per 'chaky' (80 plates) by the district minor forest produces committee. The district is witnessing a series of struggles on the issue

The committee under the chairmanship of the district magistrate of Kandhamal convened a meeting on July 11 because of relentless pressure from different tribal societies to scale up the price per chaky from Rs 6 to Rs 8. The committee in the presence of the secretary of AMCS, Tikabali passed a resolution for such a hike and as per the government procedure the RDC of Berhampur approved the resolution. The AMCS from its side also printed a large quantity of leaflets carrying the new rate and circulated it in the district for general awareness. The society started collection from August 15, an independence day gift to the tribals. But in mid-September the society stopped its collection on the ground that the price was 'imprudent'.

The AMCS, a government body operating in Kandhamal, Beliguda and Boudh forest division since 1947, has been collecting 18 minor forest produce including siali plates, a major item in the district. In a year the society collects 1,200 to 1,500 truck loads of siali plates and that helps nearly two lakh people of the district to eke out a living, though meagre.

A majority of the sellers to the society are the tribals who travel to distant forests in search of siali leaf and gather 10-12 kg at a time in a normal day The course of activities, viz., collecting leaves, drying, sizing, stitching and packing consumes a lot of labour time and a man at best can prepare on an average nearly 200-240 plates that is three to four chakies.

Minor Forest Produce (Regulated Business) Orissa Act, 1981 has empowered the committee to enhance the price whenever there is a need. The committee can scale up the price considering the factors related to the development of tribals including the minimum wages of unskilled labourers prevailing in the state as per government declaration. In the meantime, the state government hiked the minimum wages of unskilled labourers from Rs 25 to Rs 30 in June. The tribals then responded to the government declaration immediately and forced the district magistrate to revise the rate because three to four chakies do not give them even the minimum wages at the rate of Rs 6 per chaky. But turning a blind eye to the development of the poor tribals in the district the Society has approached the high court to revoke the resolution saying that the resolution was 'irrelevant and extraneous'.

Also, under the same act the Orissa government acquired the right on minor forest produce to protect the interests of the poor against exploitation by private traders. For the third time in succession the AMCS has bagged the state Samavaya Award for its financial growth, good management, and service to the hapless tribals in the district. The society was also able to show a profit of Rs 95,14,990 from 1993-94 to 1995-96.

The Society has been the target of people's agitation in the past over the enhancement of procurement price of siali plate. Earlier in February 1990 when the rate per chaky was Rs 2.50 a series of agitations led to an enhancement of the price up to Rs 3.50 per chaky. The Society was forced to accept the enhanced price.

Now history repeats itself. The tribals themselves have launched a struggle over the issue again. On October 10 a massive rally of nearly 10,000 people was held at the district headquarters to force the Society to accept the new price. The entire region is affected by the agitation but nothing has deterred the Society from its decision. The Society appears to have had good relations with its purchasers, the private traders of the nearest town who market the siali plates and the former is protecting the latter's interest because such enhancement of prices would affect the traders' profit. Either the district administration which should have implemented the rate had no inkling of the circumstances related to the resolutions or was playing a dubious role in the entire situation. However the district is seeing the distressed sale of siali plates at Rs 3-4 per chaky.

The AMCS' harsh decision comes at a time when the entire district is reeling under a severe drought. Though other parts of the state are also affected and there have been reports of starvation deaths, the people of Kandhamal district would have been able to eke out a living through the sale of siali plates But if the impasse continues longer starvation deaths as in adjacent districts may well occur here.

Bogus Debate on Bioethics

Suman Sahai

The debate on biotechnology and bioethics on Indian platforms thrives on rhetoric and metaphors directly lifted from the west. India cannot evaluate genetics or any other science in such a manner. It will have to create its own paradigm, answering its social needs.

KEEPING pace with the growing importance of biotechnology and its potential to address some of our urgent food and health care needs, a spurious and somewhat bogus debate on bioethics is being started in India. This debate which is essentially a debate on the ethical problems associated with genetics and biotechnology, is being kicked off on the seminar/workshop circuit where a certain section of Indian intellectuals solve the nation's problems when they are not solving them on international platforms. Like many of the arguments offered against biotechnology, the debate on bioethics with its rhetoric borrowed from the west and its plagiarised metaphors, is not Indian in context or substance and far from being relevant, it is really something in the nature of a red herring.

The concern with bioethics is essentially a western phenomenon. In these countries one of the more visible reactions to the growing strength of genetics research is the ethical dimension of this research and its application, particularly with respect to humans. The bioethical debate attempts to come to terms with a fascinating new science which has challenged many of biology's and philosophy's existing frontiers.

Bioethics is a subject of concern almost everywhere in Europe and America but the debate is sharpest in Germany. There are several reasons why this is so. Most important perhaps is Hitler's Third Reich and the utterly reprehensible programme of eugenics practised by the Nazis. The latter believed in the superiority of the German (Aryan) race and launched on the annihilation of six million Jews for as much economic jealousy as distorted concepts of racial superiority. In addition they killed off a few hundred thousand gypsies, and old and disabled Germans.

This is bad enough; what is worse is the complicity of some scientists and medical men of the Third Reich in what must rank as mankind's most grotesque crime. Biologists and geneticists of a certain hue fell in with enthusiam to provide the scientific framework and expertise to carry out these terrible plans. Monsters like Josef Mengele experimented with genetically determined eye disorders and blinded whole families of gypsies where this disorder was found, to study the nature of the defect. It is no wonder that after the Third Reich, genetics is suspect among certain sections in Germany and the rather extreme view that nothing but evil can come from this science has gained currency in radical fringes.

Another important reason for the resistance against genetic research lies in the very basis of the Judaeo-Christian faith. This has created the philosophical underpinnings for a society that finds "interference" in God's work an unacceptable arrogance and something that is evil and unethical. Each philosophy grows out of the soil of its religion and culture. According to Christian belief, God has created all living creatures and He has created man, His supreme creation, in His own image. It is this belief in the very special nature of man that militates against a science that presumes to improve upon God's work. The language of the ethical objections voiced by the church and by many philosophers is explicit. Genetic manipulation, including gene therapy to correct genetic disorders, violates "the dignity of man". This inborn dignity derives from the fact that man has been created in the image of God. This is a powerful reason for those who believe, to reject a science that interferes in divine work.

It is interesting that the operative words which appear in the concerns and the rhetoric voiced by opponents of genetics, are not so much 'genetics' or 'genetic sciences' but 'genetic engineering', 'gene manipulation' and 'gene technology'. All these terms are suggestive of interference and are dehumanising in the sense of reducing life, specially human life, to a mere technology and robbing it of its extraordinary status. The language of the objection reveals much of the basis of the objection.

With respect to the violent objections to biotechnology as the application of genetics and genetic engineering, the unspoken rationale of German and other western societies is logical for their context and economic situation. The fact is that all these are countries that are not only self-sufficient in food, they have a standard of food availability and choice that perhaps cannot be bettered.

Not only are these countries secure in their food supply, they produce such volumes of surplus that it is costing increasing sums of money to destroy the mountains of fruit and vegetables, the lakes of milk and wine, and the stacks of meat and butter. In 1993, for example, it cost the Europeans over 3.6 billion dollars to destroy in an environment- friendly way, the surplus fruit and vegetables that could not be consumed or processed.

The other field where biotechnology is showing potential is in the synthesis of vaccines and drugs. Many drugs like insulin and tPA, a drug against blood clots, are much more cheaply and easily available through biotechnology than through conventional methods. The possibility of manufacturing cheaper, more efficient life-saving drugs like antibiotics and anti-leprotics is another one of the promises of genetic engineering. Although concrete results are thin as yet, the potential for creating vaccines for the large number of diseases afflicting the poor in the developing countries, is promising.

Western societies where the dangers of the biotechnological route to drug production are the subject of intense and emotional debate are societies that are fortunate to enjoy excellent medical cover. These are also societies where medical insurance assures practically every citizen (perhaps less so in the US), a high quality of medial aid at a subsidised, reasonable price. These are not societies that have to confront deaths because of epidemics or children disabled because of lack of vaccines. For affluent western societies, procuring medical aid is not an urgent and desperate social need. They can be finicky as to which kind of medication, from the several available, they wish to have.

It would be clear after tracing some of the important reasons leading to the often unbalanced concern about genetics in European societies, that these are arguments and reasons that do not apply to us in India. Yet, those who speak in our country about ethical objections and the dangers of genetics and genetic research, do so on the basis of western concerns. So we hear objections based on violating the dignity of man, on the dangers of gene manipulation creating an army of robots to wage war and conquer the world. We hear of the dehumanising impact of gene technology and the terrifying dangers of biotechnology in agriculture, dairy and food production where monster plants and animals will rise from the field as a result of mixing genes.

The rhetoric is lifted straight from the radical fringes of Europe and repeated almost verbatim on Indian platforms. This has two manifest dangers. One, it reduces the serious subject of ethical appraisal of a science to a ridiculous farce by introducing thoroughly irrelevant arguments. The second danger from this kind of plagiarised argument is creating artificial concerns which will come in the way of our evaluating and using this

powerful science to provide such essential social needs like food and health care.

When we in India discuss the ethical aspects of genetics, we must do so rooted in our own philosophy and religion, reflecting our social and human needs and positing and resolving our own dilemmas and problems in the way that is right for India, not Germany or Europe.

Let us take religious and philosophical arguments different to the Christian belief in the supremacy of man as God's ultimate creation. The Hindus, for example, have the concept that man is part of a continuum of creation, transmutable and changing from birth to birth, depending on his karma. He enjoys no exalted position like in Christian belief. According to Hindu belief, man is not created in the image of God and therefore it is very difficult to argue that genetic manipulation would violate his dignity for that reason. Similarly, the Hindu concept of God/Divinity is more in the nature of an eternal truth without beginning and end as against a finite God of the Christian faith.

The reason I am pointing out these very fundamental differences, and these can be analysed for all faiths, is to point out that the philosophy and culture of a country reflects the religious beliefs of its people. India cannot evaluate genetics or any other science in a western paradigm. It will have to create its own paradigm, reflecting its cultural and religious traditions and answering its social needs. For a multi-cultural, multi-religious people like ours, we will have to formulate ethical guidelines that allow individual freedom and ensure that nothing is imposed on any person or community.

The concerns of Europe are right for Europe. There is little reason for people in a food surplus Europe and US to become excited about the biotechnology route to increase the yield of wheat or potato. Why should they produce still more food when it is already costing them money to destroy what no one will eat. But can we Indians have the same perception? Is it more unethical to "interfere in God's work" or is it more unethical to allow hunger deaths when these can be prevented?

Is the green revolution an unethical, nefarious plot or is it, with all its faults, also the instrument that brought food to the starving poor. Satiated western societies can afford to find fault with the green revolution as an environmental burden that should be done away with. Hungry societies in India and other developing countries will have to balance the overwhelming need for food with protecting the environment. The green revolution will have to be viewed in that light, even as we seek to redress the imbalances created by it, and in searching for better methods of food production, jettison those factors that have been proven to be detrimental.

If there is an outcry in the west against the hormone Bovine Somatotropin, which increases milk yield in cows, it is entirely logical for a society that is afloat in an ocean of milk. What on earth will they do with still more milk when they can not dispose of the surplus that they are already producing. But is it logical in India, a country with severe milk shortages, where children do not get minimal nutrition and where starvation deaths are not infrequent? Should India with its acute fodder shortage and a bovine population that gives about two litres of milk a day, spurn a product on ethical grounds that has the potential to improve the fodder conversion ratio and allow a cow to produce more milk from the same fodder? Is BST an acceptable product in India on ethical grounds?

Should we allow ourselves to be hemmed in by borrowed ethical arguments when it comes to the critical area of raising agricultural production? In India where post-harvest losses destroy upto 40 per cent of the food we bring in from the field, should western hysteria about biotechnology be allowed to get in the way of making agricultural products more durable and amenable to processing. Should 60 per cent and more of the fruit grown in the economically weak hill regions be allowed to rot because it cannot be sold or should we try to produce fruit varieties in which the rotting process can be delayed.

The resistance in some sections of western countries to the genetically engineered Flavr Savr tomato which does not rot quickly, is to be seen among other things, in the context of the mountains of tasteless tomatoes being produced in intensive cultivation modes in countries like the Netherlands. Suppose however that genes to hold back the rotting process in apples or pears are located, let us say not even in apples and pears, but in cauliflower, should the imported ethical paradigm stop us from conducting research to transfer the gene from cauliflower to apple and so enhance the earnings of hill farmers by lakhs? What should our ethical considerations be?

Unfortunately, the issue of bioethics is often being confused with that of bio-safety in the sometimes incoherent debate on genetics and genetic application. The crucial significance of biosafety which is one of the most important aspects of research in genetics and biotechnology cannot be overemphasised. Whereas different interpretations of ethics are needed and are desirable, no divergence is possible in interpreting the importance of safety protocols when considering the release of genetically manipulated organisms.

Different countries can have strict or very strict protocols for biosafety. No one however denies that genetically changed organisms must be tested with the utmost caution in the laboratory and in controlled field conditions before being sanctioned for release.

The aim of developing societies should be to harvest the power of science and technology to improve the living conditions of their people. That is one of our most important ethical compulsions. The new science of genetics has raised complex issues of science, ethics, society and its well-being and its moral dilemmas. These issues need a sophisticated, reasoned response that addresses the complexity of the problems. It is much too simplistic and totally inadequate to rely on charged hyperbole and bans forbidding the practice and use of science. Above all, the concerns and debates in each society must be relevant to that society and rooted as much in its needs as in its culture.

The Other Side of Development

Maharashtra's Backward Regions

H M Desarda

Maharashtra's backward regions, Vidarbha, Marathwada and parts of the Konkan have suffered not only because of sheer neglect, but also because the growth model of western Maharashtra is being foisted on a region with different agro-climatic and socio-political features.

BY common conventional and commercial yardsticks of economic growth Maharashtra is an economically and industrially 'advanced' state of the Indian union. The per capita income is one and half times the all-India average and double that of Kerala and triple that of Bihar; per capita electricity use is twice the Indian average; the proportion of urban population in Maharashtra is 38 per cent whereas that of India is 26 per cent. If we take consumer durables like cars, two-wheelers, colour TVs, washing machines, air-conditioners, telephones, faxes and services of public and private airplanes, five star schools, hospitals and hotels, it is way above the Indian average.

The capital of the state, Bombay is often referred to as commercial capital of the country. Bombay with high profile business headquarters, financial institutions, film industry, ultra five star hotels, underworld dens, pimps and prostitutes, goons and gangwars has become the 'world class city' and the centre of commerce. Not only do the traditional industrial trade and mercantile houses wallow in wealth but also the whole *nouveau riche* class – of builders, contractors, diamond and jewellery merchants and a new breed of consultants be they doctors, decorators, architects, advertisers, engineers, chartered accountants, tax advisors, share brokers and wheeler-dealers of all kinds - have turned Bombay into a symbol of India's catching-up-with-the-west process. Top class industrial and commercial gentry, professionals, bureaucrats and politicians and the upper middle class numbering between 1.5 and 2 million are the elite who set the politico-economic agenda of India. Will the change of name to Mumbai mean any change in all this?

Against the backdrop of this dominant trend and the direction of the state's economy we have to ask: what is the state of Maharashtra's 85 million people today? In the highly industrialised and urbanised Bombay Metropolitan Region nearly half the population lives in slums with scanty provisions of drinking water, sanitation, health, hygiene, housing, etc; literally five to six million people live next to latrines, on pavements, plinths, platforms and have no access to anything called civic amenities.

Yet, Mumbai is perceived and portrayed as a paragon of 'new' India with its paraphernalia of avarice, greed and consumerism. Lamentably thousands of people from all parts of India migrate to Mumbai to eke out a livelihood often by despicable and hazardous means. In fact, the conditions in many corporation towns like Thane, Pune, Pimpri-Chinchwad, Amravati, Nagpur, Aurangabad, Kolhapur, Solapur is no better. In many rural areas also the physical and human environment is no better. There is no planning of human settlements and money and muscle power is the main arbiter and is ruling the roost. The populist gameplan of the erstwhile and present ruling parties has complicated and compounded the problem. It is not an accident that such a situation and scenario has emerged. This is the fall-out of the faulty policies and mistaken perceptions about the growth and development

Ecological Toll

The pre-valing path, paradigm, and programmes of development are socially unjust, economicaly resource-squandering and environmentally destructive. As such, for the short-term good of the few it inflicts long-term ecological costs on a majority of the people. The *Human Development Report* has revealed the misleading character of the conventional professional indices of measuring growth and welfare like a higher share in GDP of manufacturing goods and infrastructure and services, level of urbanisation and industrialisation, per capita income, per capita use of electricity, number of vehicles, use of chemicals in agricultural and industrial production, degree of mechanisation, extent of irrigation, etc. Globally there is increasing acceptance of this approach. It distinguishes growth from development. The conceptual category of 'backwardness' sans the above attributes and parameters of development is used as a cover to demand growth projects of little real worth to the large majority of the people. Indeed, there is backlash of this kind of growth process. This is what is happening in Konkan, Marathwada and Vidarbha regions and a few other districts in other parts of Maharashtra.

To assuage the feeling of neglect and lag in these regions the constitutional provision afforded by the article 371(2) has been revoked recently and the three separate Statutory Development Boards have been set up in Maharashtra. Under these boards the governor will ensure balanced and equitable development of all regions of the state. In accordance with the principles enunciated by the State Reorganisation Commission the aspiration of the regions and people constituting Maharashtra were to be promoted and their cultural identity preserved. The political and populist overtones have been shrewdly exploited by the ruling elites. The setting up of statutory boards is an outcome of that arrangement.

Unfortunately, sincere workers and a section of the freedom fighters who have made utmost sacrifices in the struggle against the feudalism of the Nizam of Hyderabad and other petty feudal chiefs in Vidarbha have fallen prey to this rhetoric and have become the protagonists of a resource-squandering process of growth. Over the years the problems of the common people have been compounded and the life-support system has continuously deteriorated, thereby accentuating the problems of poverty and unemployment. As of now, several thousand villages and many towns are experiencing acute scarcity of drinking water. In fact, this is a telling example of the unsustainable character of the current development process. It is a symptom of a much deeper malady, the topsy-turvy nature of the present project-oriented growth process. Capital-intensive industry has been conceived as an engine of growth. In the socio-political context of Maharashtra the Bombay-Thane-Pune-Nashik pattern of industrialisation and Satara-Sangli-Nagar-Kolhapur paradigm of agro-industries, basically sugarcane-based industries, became the prime model of the state's economic growth, a new idiom of rural and agricultural revival.

Vidarbha, Marathwada and even Konkan regions which are agro-climatically so different deemed western Maharashtra as a 'model' for growth. Co-operatives became the springboard for rising in the leadership ladder. The Sena-BJP government and leaders want to follow the same path to establish their hegemony.

Secondly, in terms of infrastructure, irrigation and power were considered the major means of pursuing this growth model. For a long time, more than half of the state's plan funds are spent on these two sectors. The clamour for allocating more and more money for major and medium irrigation projects has led to competing claims from the different regions and interest groups. Injured feelings of regional imbalance and particularly separatist sentiments in Vidarbha were part of the armoury of political leaders who used it to pander and whip up emotions and subserve their narrow self-interest of syphoning money and capturing political power.

Of course, this does not mean that there are no just demands and genuine grievances in these regions and these led to the new pulls and pressures in early 1980s. The government appointed a fact-finding committee which submitted its report in 1984. The upshot of the report has been an identification of 'developmental backlog' of Rs 3,185 crore in a few selected sectors, the

major heads being irrigation (Rs 1,385 crore), roads (Rs 600 crore) and rural electrification (Rs 300 crore). Not only the districts in traditionally known backward districts but almost every district including Mumbai had a 'backlog' in one sector or other. Though the government has not taken any clear and definite position about the approach suggested in the report it has agreed to make good the backlog in specified sectors during the Seventh and Eighth Plan. The latest available figure shows that in the past 11 years twice the amount of the estimated monetary backlog of Rs 3,285 crore has been spent. However, the physical achievement is way behind and almost an equal amount is required to achieve the stipulated targets. A glaring example of the dismal performance is reflected in the expenditure of the irrigation sector. Against the designated backlog of Rs 1,385 crore already Rs 2,538 crore have been spent. But as against the designated actual physical backlog of nearly 14 lakh hectares to be brought under irrigation hardly half the target has been achieved. In other sectors the story is no different.

Marathwada is one region where during the past two decades nearly Rs 1,500 crore have been spent on different types of water use projects and the net outcome is that in actual terms not even 50,000 hectares are irrigated by the canals. Interestingly enough the irrigation department statistics says that the potential 'created' is to the tune of 7.5 lakh hectares – not even a 10 per cent achievement. In the region's major prestigious project Jaikwadi the irrigation benefit is even less than the area submerged under the project. This has become a classic story of pumping large sums of money but no water comes out! It is all either dead storage or some lift flow directed to non-irrigation uses at a great cost to the exchequer and the community. The moral of the story is: Dams are not built to provide water to the parched earth and thirsty people but to provide windfall gains to engineers, contractors and their political godfathers. Consequently, nearly half of the 8,000 villages in the Marathwada region requires water supply by tankers. In this very region there is glut of sugarcane. What kind of planning and public policy is this? Notwithstanding all this, new sugar industries are being 'commissioned' by the ministers of even the new supposedly non-sugar baron government. A recent conference of the Marathwada Vikas Parishad at Latur, in its resolution on water, has expressed deep concern and resentment about the scandalous state of affairs in this most crucial sector.

After Marathwada now the main squanderer of the money in the name of 'irrigation' is the Vidarbha region. The region's major investment project is on Vainganga river known as Gosikhurd the cost of which in 10 years has gone up from Rs 300 crore to Rs 1,600 crore. This year a provision for this white elephant has been hiked from Rs 2 crore to Rs 50 crore. Now, the irrigation minister of the state is from Vidarbha region and it is 'their' turn to squander money. Booking for the state's share of Krishna water by 2000 AD is another handy ploy to seek money through bonds and NRI investments. Jai Maharashtra!

It is high time to take hard look at these realities. 'More of the same' is simply no solution. Alternative ways and approaches to harness water resources on a sound and scientific basis are the prime need of the hour. Clearly there is a clash between the present engineering and technocratic methods and the alternative socio-ecological perspective. The latter being holistic is equitable and sustainable and through that alone can people-oriented water resource development and socio-economically sound growth be accomplished.

A peoples' movement to challenge the current growth processes which are parasitic and resource-squandering seems to be the only answer to balanced regional development, which should be firmly rooted in the specificities of factor endowment rather than copying the west or western Maharashtra.

Turko-Lingual States Make Common Cause

R G Gidadhubli

While regional compulsions brought together the six Turko-Lingual States to sign a declaration of solidarity and co-operation at Tashkent recently, much depends on how they can reconcile their differences following upon their different economic histories.

THE fourth high-level meeting of the heads of six states of Turkic group of languages was held in Tashkent, the capital of Uzbekistan on October 21. The six states are, Azerbaijan, Kazakstan, Kyrgyzia, Turkmenistan, Turkey and Uzbekistan. This grouping is yet another effort by the former Soviet Central Asian republics to forge links and to assert their regional identity, to consolidate their independence and to integrate with world economies. This meeting coincided with the celebrations of the 660th jubilee year of Amir Taimur, the great Uzbek emperor who conquered amd ruled a vast territory from Mongolia in the east to Turkey in the west and the border of Russia in the north to the border of India in the south.

The presidents of the six countries expressed satisfaction at the growing fraternal ties among the Turko-Lingual States (TLS) efforts for which were initiated in the previous meetings at Ankara and Istambul in Turkey and Bishkek, the capital of Kyrgyzia. The heads of TLS have reaffirmed the principles of respect for independence, sovereignty, equality, territorial integrity, inviolability of borders and non-interference in internal affairs of one-another. This regional moral group support on border issue seems to be particularly significant and helpful to some members of TLS – Kyrgyzia which has some border problem in the Osh region with Tadjekistan and Azerbaijan has differences with Armenia on the Nagorno-Karabakh region.

Bilateral and multilateral relations are reported to be developing well among the TLS in order to promote cultural-historic ties and enrichment of Turkic languages and Turkic civilisation. These states propose to work jointly for the realisation of the programme of rehabilitation of the silk route by developing infrastructure facilities and opening up of avenues for attracting tourists with the involvement of local government bodies and non-governmental agencies. The heads of TLS seem to be happy about the progress made in these tasks.

The objective of the Tashkent meeting is not to confine only to these language and cultural issues. In the Declaration there is significant emphasis given to develop trade and economic co-operation among the TLS and more importantly to work for the establishment of a common market for trade, services, capital investment, offering employment opportunities without adversely affecting the international commitments of individual members. In the Declaration it is asserted that for achieving this common market steps are being taken for simplifying customs and transit procedures and resolving constraints which are affecting mutual trade, banking and financial operations.

TLS being rich in natural resources particularly in oil, natural gas, gold, non-ferrous minerals, cotton, etc, it is proposed to undertake joint projects for exploitation and transportation of these products to world markets. Besides making joint efforts, TLS hopes to attract other interested countries and international financial institutions and private agencies. Work is being carried out by member states jointly with international organisations for laying pipelines through Turkey to the Mediterranean sea to facilitate export of oil and natural gas to Europe. This route when completed will not only reduce the distance but will bypass Iran much to the desires of some western countries. The TLS have emphasised the need to speedily develop transport networks, namely, Trans-Caucasian corridor for which the European Union has lent support and the proposed 'North-South' corridor from central Asia through Afghanistan and Pakistan to the Indian Ocean.

The Central Asian countries of the former Soviet Union have undertaken the programme of economic transition – privatisation, price liberalisation, opening up of their economies in order to integrate with world economy. The heads of TLS have called upon international organisations such as World Bank, IMF and other regional banks to actively co-operate in the programmes being undertaken by them in this transition period. On their part, the central Asian countries propose to undertake measures to stimulate economic growth by investing more capital, developing human resources and skills, developing new technologies and promoting small- and medium-scale businesses.

Two other issues that are highlighted in the Tashkent Declaration are firstly, the need to jointly fight against illegal production, trade and transit of narcotic drugs and fight against narco-business which, the members are aware, leads to and is a source of terrorism. Certain parts of central Asia are already affected by this problem since climatic and natural conditions are conducive for growing poppy and producing opium. Moreover, central Asian countries are being used as transit points to transport drugs to the west. Secondly, TLS heads have emphasised the need to co-operate in protecting environment particularly in the Aral Sea region.

The desires to organise regional grouping on the basis of common linguistic and cultural heritage is understandable. By organising international seminars and conferences the TLS propose to propagate and enrich the same as it is envisaged in the Declaration. However, significantly despite being predominantly Islamic countries there is no reference in the Declaration to religion which shows that the TLS give more importance to building secular societies not encouraging religious fundamentalism. This could be an important to Pakistan which harps on religious aspect in its relations with the central Asian countries.

Notwithstanding ongoing efforts being made by the TLS to promote their socio-cultural and economic ties, the realisation of their objectives depends upon how they will resolve problems facing them and how they will reconcile certain differing perceptions and interests. For instance, in 1994 Uzbekistan, Kazakstan and Kyrgyzia had entered into an agreement for doing away with customs posts for facilitating trade and tariffs. Despite this there were reports about difficulties in the movement of goods at the borders among these countries. Similarly, punitive economic measures were being considered by some of these countries for realising arrears of payment for the supply of coal, electricity, etc. For achieving the objective of a common market the TLS will have to resolve such issues.

Considering that the central Asian states are in the process of transition, the pace of reforms differs from country to country. While Kyrgyzia has made substantial progress in price liberalisation, privatisation and reforming the banking sector. Azerbaijan has to go a long way in this regard. Turkey is a case apart since it has been a relatively developed capitalist economy closely linked with the western world. In fact, in 1992-93 the Turkish 'model' of political democracy and market economy was considered and even recommended to be ideal for central Asian countries to emulate, but they have subsequently reconsidered the matter. Turkey has been one of the key players in the central Asian economies both in terms of trade and joint ventures. Turkey has been utilising linguistic and cultural bonds to promote its own Pan-Turkic ambitions in the central Asian region. However, Uzbekistan which has evolved its own Uzbek model of development where the state will play a key role in regulating and guiding economic reforms and evolving market institutions, has demonstrated remarkable success in achieving economic progress and is even

called the emerging tiger in central Asia. The Uzbek president Islam Karimov has repeatedly called upon other central Asian republics in rebuilding 'Turkestan our common home'. Hence both Turkey and Uzbekistan may try to assume leadership in the TLS region. Even in the Tashkent Declaration which has emphasised the development of new transport routes, while the one linking the Mediterranean Sea will give greater advantage to Turkey, the 'north-south corridor' via Afghanistan-Pakistan linking the Indian Ocean will give greater advantage to Uzbekistan. Kazakstan which has the largest territory among the member states in the region and has vast potentialities of energy, mineral and agricultural resources may also aspire to exert its own position in the TLS regional block using its Russian card being close to Russian Federation and having the largest Russian ethnic community in its country.

Apart from this, there are many issues on which there is competition among the TLS, although on a few issues there is complementarity among them. For instance, Kazakstan has been a traditional supplier of foodgrains and oil to Uzbekistan and partly to Kyrgyzia, thus complimenting each other. Turkey has been supplying a wide range of consumer goods, machinery and equipment to other members of TLS. Despite this, competition though implicit at present, exists between Turkmenistan and Kazakstan which are both exporters of oil to the world markets. Uzbekistan and Turkmenistan are rich in natural gas and both want to export it to earn much needed hard currency. Similarly, in the case of gold and non-ferrous minerals, Kazakstan, Uzbekistan and Kyrgyzia are competitors to get foreign capital and technology for exploitation of these rich resources and for export to the world markets. Future economic development and success of transition depends upon their ability to export their immense resources and earn hard currency, and for achieving this each country would like to give priority to safeguard its own national interest. But most of the TLS members being landlocked realise that their individual interest cannot be served without some joint efforts to take up their common causes. Hence motives for regional co-operation relie much on this complex reality.

It is a matter of great significance that during the last couple of years the central Asian republics of the former Soviet Union have become members of several regional groupings. TLS is one of them. They are also members of the Organisation of Islamic Community (OIC), Economic Co-operation Organisation (EKO), Organisation of Caspian Sea countries, etc. What has compelled them to join several regional bodies is not only their need to establish their identity in international bodies, but also to reduce their dependence on Russia and project their own interest. The emergence of nationalist tendencies in Russia which was particularly reflected in the rise of popularity of Vladimir Zhirinovsky coupled with Russia's new military doctrine which seemed to imply the right to use force for protecting the interests of Russians in the countries of 'near abroad' could have hastened their intentions.

It is understandable that after the Soviet disintegration, the central Asian states and Azerbaijan have decided to develop their own respective languages declaring them as the national language in respective countries giving due priority to the national language as medium of instruction in education. However, Russian language is being widely used and it is significant that the text of Tashkent Declaration prepared in Turkic and Russian languages was signed by the six heads of the TLS.

Considering the complexities involved in any regional groupings, what has been achieved so far seems to be modest. But the TLS heads seem to be earnest in their determination to continue their effort. This is further evident from the establishment of a special secretariat for monitoring and promoting their common linguistic, cultural and economic programmes including those agreed upon in the Tashkent Declaration and the decision to hold the fifth meeting of the heads of TLS in the fourth quarter of 1997 in Alma Ati, the capital of Kazakstan.

Public Policy and the Financial System

A Dilemma of Two Cultures

N A Mujumdar

The financial sector reforms introduced as part of economic liberalisation have done the economy more harm than good. Any reforms that we introduce must be judged by the test of their relevance to the specific Indian socio-economic milieu, and the 1991-96 reforms fail this test. The initiatives taken by the United Front government appear to appreciate this point.

THE global economic environment that we are confronted with and the accepted approaches to economic development are quite different today from what they were in 1951 when we embarked on a course of planned development. Today central planning stands discredited. Opening up of the economy, deregulation, competition both nationally and internationally, are supposed to unleash the productive energies of the private sector. It is much better for the state to take economic *Samnyasas* so that we may graduate into a market-driven economy. This is perhaps the essence of the so-called 'Washington Consensus' which is supposed to be applicable, in terms of macro-economic management, to not only developing, but also emerging and transitional economies.

Against this broader background, I wish to explore the main elements of what should be the appropriate approach to the development of the Indian financial system. The subject merits careful attention for at least two important reasons. First, the distinguishing characteristic of the financial markets. As Joseph Stiglitz emphasises: "Financial markets are markedly different from other markets: market failures are likely to be more pervasive in these markets; and there exist forms of government intervention that will not only make these markets function better but will also improve the performance of the economy".[1] Financial sector reforms, carried out in India during 1991-96 do not seem to reflect an appreciation of this special characteristic. The second reason relates to the evolution of the Indian financial system itself. For convenience of discussion this evolution can be broadly divided into three distinct phases: the first phase covering the period 1969 to 1991 may be termed the post-nationalisation phase. The second phase covering the period 1991-96 is the period of liberalisation and of reforms of the financial sector. It is this phase which needs to be really subjected to closer scrutiny since it epitomises misguided enthusiasm on the part of the monetary authorities to mimic what one might call the Washington model, ignoring the ground realities of the specific Indian socio-economic milieu. The third phase begins with the emergence of the United Front government in the latter half of 1996. This phase represents a return to realities in the sense that the government has taken a number of initiatives which clearly mark a departure from the Washington model. These initiatives include: a commitment to double the size of rural credit during the next five years, doubling the share capital of NABARD, establishment of state-level development financial institutions with the objective of promoting investment in commercial and high-technology agriculture and the setting up of private local area banks (LABs) with jurisdiction over two or three contiguous districts. Also, the new government is committed to a cheap money policy.

I would seek to show that the reforms introduced during the second phase, based as they were on the Washington model, did more harm than good to the economy. Furthermore, if only the authorities had chosen to take a leaf out of the east Asian experience, rather than imitate the Anglo-Saxon model, the results would have been far more beneficial. Any reforms that we seek to introduce should be judged by the test of the degree of relevance to the specific Indian socio-economic milieu, and the 1991-96 reforms fail this test. The initiatives taken by the new government appear to appreciate this point and hence one can look forward to the third phase of the evolution of the Indian financial system with greater hope.

Three Phases of Evolution

The Indian banking and financial system has made, during the two decades since nationalisation, commendable progress in extending its geographical spread and functional reach. The spread of the banking system has been a major factor in promoting financial intermediation in the economy and raising the savings rate from some 10 per cent to around 25 per cent. Secondly, the banking system now caters to several million borrowers especially in the agricultural sector, small-scale industries and the self-employed. Even the critics of nationalisation concede these achievements of the financial system – achievements which are well documented. For the present purpose what needs to be highlighted is that during this phase, policy-based credit programmes created an ethos among bankers, especially public sector bankers, a commitment to credit disbursement designed to promote growth. Credit policy during this phase thus became growth-enhancing, both at the macro and micro levels.

Unfortunately, this ethos, which was so assiduously built up during the first phase was systematically destroyed during the second phase, when insensate profit making seems to have become the central objective. Credit policies during the second phase became, in a way, growth-compressing. Ostensibly, the financial sector reforms were based on the recommendations of the Narasimham Committee.[2] But it was something more than mere coincidence that the major recommendations of the Narasimham Committee rhymed with those of the IMF/World Bank. Indian policy-makers thus became faithful followers of the Washington model, under the umbrella of the Narasimham Committee. The Reserve Bank of India's (RBI) selective amnesia on credit to priority sectors, total elimination of the element of concessionality in lending rates to small borrowers, textbookish belief in the usurious interest rates as an instrument of credit rationing, wrong prioritisation of the development of capital and public debt markets and the nearly total neglect of issues relating the rural credit delivery system – all these, taken together, became a bundle of growth-compressing policies, which also symbolised abdication of social objectives. After all, as students of public economics we should judge the consequences of monetary policy in terms of their relation to social objectives.

Of course, some of the reforms in the banking sector, as I have discussed elsewhere,[3] like capital adequacy, provisioning, are indeed welcome. Two major components of reforms, borrowed from the Washington model, have harmed the Indian economy: first, directed credit is bad and hence need to be done away with; and, second, interest rates should be market-driven and there is no place for cross-subsidisation. Following this dictum, the Narasimham Committee had recommended that the share of priority sectors in net bank credit should be brought down from the present target of 40 per cent to 10 per cent. Priority sectors should be redefined to include *only* small and marginal farmers, the tiny sector of industry, small businesses and transport operators, village and cottage industries, rural artisans and other weaker sections. The

committee worked out the new target on the basis of the present share of the redefined priority sectors. Fortunately, RBI did not share this pathological aversion to directed credit and left the target unchanged. Even statistically, the Narasimham Committee's recommended target of 10 per cent was flawed, because as RBI pointed out later, the present share of the *redefined* priority sectors worked out to some 30 per cent. When reformers are in a hurry, it is the disadvantaged sections and sectors which become a casualty!

In practice, however, things turned out to be quite different. Commercial banks defaulted consistently on the priority sector target of 40 per cent of net bank credit and also on the sub-target of credit to agriculture of 18 per cent. The share of priority sector advances declined from nearly 41 per cent in the pre-reform period to 37 per cent or so in 1995-96. The RBI chose to wink at the default and did not even condescend to analyse, in its scholarly publications, the causes of such default. In fact the share of rural branches in total bank credit declined from more than 15 per cent in the second half of the 1980s to around 11 per cent in 1996. The credit-deposit ratio of rural branches – which had risen above the prescribed level of 60 per cent – declined to less than 48 per cent in 1996. These are unmistakable indicators of a sizeable decline in the total resources flowing to the rural sector. RBI recovered from its amnesia only after the United Front government articulated its concern for agricultural and rural development and has subsequently started making appropriate noises.

The concessional element in the lending rates was totally eliminated as part of the reform prices. For instance, even a small borrower has to bear an interest rate of 12.5 per cent against 10 per cent in the pre-reform phase. The principle of cross-subsidisation of interest rates which was the bedrock of the Indian interest rate policy thus suddenly became unfashionable. There are at least three reasons why the element of concessionality is crucial to Indian economic growth. First, there is a wide range of micro-businesses and tiny enterprises operating under low-level equilibrium: in such cases a 1 or 2 per cent rise in interest rate may convert a viable business into a non-viable business. Second, as the east Asian experience, which we will discuss shortly, demonstrates, selective subsidisation makes credit policy an instrument of economic development. Third, cross-subsidisation, as I G Patel has forcefully pointed out,[4] is one of the essential ingredients of a civilised society. One need not therefore shun an interest rate structure with a built-in element of subsidisation, if this approach is going to be growth-enhancing.

The credit policy pursued during 1991-96 lacked a medium-term perspective. Faster agricultural growth, expansion of non-farm activities in the rural sector, fuller exploitation of the potential of the hi-tech segments – these are the essential ingredients of any meaningful policy aimed at ensuring food security, generating employment and alleviating poverty. The fact that foodgrains stocks with the public sector had reached an embarrassingly high level of 35 million tonnes in 1995 appears to have lulled us into a sense of complacency. If a holistic view of food security is taken, the prospects of agricultural growth appear grim. In fact M S Swaminathan quotes Lester Brown and Hal Kane who predict that at the current rate of population growth and environmental degradation, coupled with an improvement in the consumption capacity of the poor, India will have to import annually over 40 million tonnes of foodgrains by the year 2030.[5] Admittedly, there is an element of exaggeration in such predictions but the underlying thrust cannot be brushed aside. In fact the task of accelerating agricultural growth in the coming years is far more daunting than what it was during the green revolution period. In sharp contrast to the green revolution strategy which achieved a breakthrough in the production of a couple of crops by concentrating on the fertile irrigated areas and on the relatively better-off farmers, the new strategy should usher in growth which would have to be pervasive, involving use of degraded land, dryland farming, optimal use of water and common property resources. At the same time, it is recognised that the poverty reduction potential in the agricultural sector is far from exhausted. The point is all these activities would need to be supported by a well-structured rural credit system.

At present the rural credit system is in a shambles. It is suffering from 'functional fatigue' which is exacerbated by the new banking culture, nurtured by financial sector reforms. Almost all institutions constituting the formal segment of the rural credit system – rural branches of commercial banks, co-operative credit institutions, and Regional Rural Banks (RRBs) – suffer from serious infirmities. These institutions are characterised by large loan defaults and a virtual erosion of repayment ethics. The growth of overdues is disturbing. This has hampered the recycling of resources and affected the very viability of the institutions. For instance, a majority of the 196 RRBs are deemed non-viable: in 1994-95 only 32 RRBs recorded profits, while the remaining 164 posted a loss aggregating Rs 420 crore. In the case of co-operatives, of the 368 District Central Co-operative Banks (DCCBs), only about 170 were generating profits. The overdues constituted 33 per cent of demand. Similarly, of the total 90,783 primary agricultural credit societies (PACS), only about 60 per cent were viable: overdues constituted about 38 per cent. One would have thought that under such circumstances, overhauling the rural credit system would claim a pre-eminent position on the agenda of the financial sector reforms. On the contrary, this is put on the back-burner. This is because the Washington model does not have any blueprint for reform of the rural credit delivery system, as it has the 'Basle Norms' for the banking system! Restructuring a dozen RRBs or signing Memoranda of Understanding (MOU) is only an apology for action. Indeed in the Indian context, there cannot be any meaningful financial sector reforms without rebuilding a rural financial system supportive of agriculture and other rural economic activities.

Perhaps the most disturbing feature of the second phase of evolution is the new banking culture bred by reforms. Even public sector banks, which were committed to support priority sectors, suddenly acquired a nose for a 'quick kill'.[6] Today banks have enough resources to provide sizeable bridge loans to enterprises like the M S Shoes, but they have no money to finance the production of sugar in Maharashtra. Again, banks would prefer to invest in zero-risk and high-yielding government securities far in excess of the statutory liquidity requirements (SLR) to lending for productive purposes. Here again, the blame should rest squarely on faulty interest rate policy rather than on the bankers.[7] It is such a radical change in the mind-set of Indian bankers, particularly public sector bankers, which would pose a serious threat to the pursuit of growth-enhancing credit policies in the third phase.

MARKET FAILURES

At this stage, the rationale for intervention in the financial system can be summed up briefly. First, governments or central banks intervene to correct market failures. Second, intervention is also necessary when the economy shows a significant discrepancy between private and social benefits. In a market-driven financial system, there is little incentive for private financial institutions to lend to small borrowers, micro-enterprises, small firms and farms. On the other hand, the social benefits of lending to these borrowers are enormous. This situation calls for intervention.

A couple concrete cases of market failures may be briefly discussed. First, the call money market. During the early months of 1992 there was the Harshad Mehta induced boom in the capital market and this, in turn, had its impact on the call money market. The call money rates soared to 75 or even 100 per cent. The apprehension then was that resources from the call money market were being diverted to artificially support the engineered boom in the capital market. The point is that when the rates soar to 75 or 100 per cent, the call money market simply does not reflect temporary imbalances in the supply-demand position of short-term funds in the inter-bank market. One has to look

for Stiglitz's 'charlatans' who are running amok in the market!

Financial markets are not like the conventional auction markets that simply auction off a unit to the highest bidder. The highest bidder, that is the one who promises to pay the highest interest rate, may have no intention of paying back the loan. To quote Stiglitz again, the distortions, of the nature mentioned above, manifest themselves because of the "infinite number of charlatans out there willing to take other people's money and use it for themselves or on projects that are not good".[8] Second, such market failures are perhaps more conspicuous in the case of the capital market, the Harshad Mehta phenomenon being a recent case. Liberalisation has brought in its wake several distortions. As one market analyst puts it bluntly: "Liberalisation of the capital market has made things very attractive definitely for issuers, if not for the investors. With the flimsiest idea of a project virtually anyone can tap the market for funds. With absolutely no post-issue monitoring, most get away with it too. Taking the lead and flooding the market are shady finance companies, with dubious promoters, ridiculous plans and even more doubtful projects.[9] There may be an element of exaggeration in the above statement but the basic point remains valid. During the capital market boom, a number of fly-by-night companies tapped the equity market successfully and vanished into thin air later. The Securities and Exchange Board of India (SEBI) has now woken up to the situation and is likely to initiate investigations into the growing number of such vanishing companies. In the liberalised market SEBI is not responsible for vetting the projects, but the concerned merchant bankers are expected to exercise 'due diligence' in managing the issues There is a mushroom growth of merchant bankers. Yet another analyst puts in plain words the role of merchant bankers: "The SEBI has over 800 registered merchant bankers who have usually played a big role in procuring temporary subscription, falsifying project details and accounts and cheating investors... How does it explain the fact that the primary market is dead because investors are tired of being duped with fraudulent and expensive public issues, but no merchant bank is in the dock?"[10] So much for the role of the capital market in the mobilisation of savings and its allocative efficiency.

The exaggerated importance attached to the development of the capital market, the various props given to artificially boost the capital market are all evidence of our misplaced enthusiasm to imitate the Washington model.

East Asian Model

At this stage, one could legitimately pose the question: were there any alternatives to the Washington model? Yes, If only the Indian monetary authorities had sought to take a leaf out of the east Asian experience the results would have been far better. This experience is more appropriate to the Indian circumstances. The economies of east Asia, beginning with Japan and followed by the four tigers – Korea, Hong Kong, Singapore and Taiwan – and then by Malaysia, Indonesia and Thailand, have grown so rapidly during the past quarter century that their growth has been called the 'East Asian Miracle'. Public policies affecting the financial system were among the more important factors contributing to their rapid growth. East Asian governments intervened intensively in the operations of their financial systems. They helped create financial markets and institutions, regulated them heavily, and directed credit to some industries and away from others. These interventions were designed to mobilise savings and to affect the allocation of investment. The east Asian economies had high national savings rates achieved largely by voluntary actions, and they were able to invest their savings in ways that yielded high returns. Government interventions in the financial markets that promoted savings and the efficient allocation of capital were central to these successes. Many of the specific institutions, programmes, and practices can easily be replicated. This experience is now well documented.[11]

Two or three aspects of the governments' or the central banks' intervention may be briefly touched upon. First, about development banks Most countries in east Asia established long-term credit banks and specialised institutions providing credit for agriculture, small firms and housing. Development banks lent substantial funds on a long-term basis in Indonesia, Japan, Korea and Taiwan. For instance, the Korean Development Bank accounted for about a third of all loans and guarantees in the 1970s. Taiwan's Bank of Communications accounts for about half the assets of the banking system. The Japan Development Bank accounted for 45 per cent of equipment lending in the early 1950s. In addition, most east Asian governments created specialised banks in areas where private lending has been viewed as inadequate, most notably in agriculture and small-scale enterprises. For example, Thailand's agricultural development bank caters to small farmers who do not have access to commercial bank lending. The bank has reached 80 per cent of potential agricultural borrowers. East Asian governments also created financial institutions for housing finance, Singapore being the most prominent example. Policymakers in Singapore believed that providing subsidised mass housing was essential for maintaining social stability.

The rationale for creating development banks in preference to developing the capital markets is clear. First, governments can influence the flow of credit to priority areas or sectors. Second, development banks are better placed to monitor borrowers closely; such close supervision might also ensure the successful implementation of the projects.

The Indian scenario provides a sharp contrast. The two development banks, IDBI for industry and NABARD for agricultural and rural development, both of which have a very good track record, have been crippled as a result of financial sector reforms. RBI has stopped its support, since 1992-93, to these two banks through its long-term operations (LTO) funds. These funds, generated out of the profits of RBI, used to provide, on a continuing basis, resources of a sizeable magnitude, at nominal cost, to these development banks. On the basis of these funds, the two institutions were in turn able to extend medium-term and long-term assistance to industries and agriculture, at concessional rates of interest. Under the reformed regime, RBI is channelling the bulk of its profits to the government of India to bridge its budgetary deficit. As we know, the budgetary deficit is rising higher and higher! One immediate consequence of this is that the two development banks are today not only faced with scarcity of resources but also with high cost of funds. The institutions themselves are borrowing from the market at unsustainably high rates of interest. Hence their lending rates have soared to usurious levels. This is happening at a time when the capital market is in the doldrums. As if this were not enough, S S Tarapore, then deputy governor of the RBI, issued the following warning to industry: "First, industry needs to be clear that the days of the development financial institutions are over in that financial institutions would no longer be in a position to provide credit at sub-market rates of interest".[12] Here is the strange case of authorities, both the government of India and RBI, going out of the way to provide artificial props to boost the capital market, which even in the developed countries is not a major source of capital formation in the corporate sector; and at the same time, crippling two development banks which were doing an excellent job in promoting agricultural and industrial growth. What a travesty of reforms! This is one more concrete case of credit policy turning growth-compressing as a result of blindly following the Washington model! One only hopes that the United Front government would ensure the restoration of LTO funds to both IDBI and NABARD as early as possible.

Secondly, all of these countries directed credit to specific sectors and firms through public as well as private banks. In Indonesia, Malaysia, Singapore and Thailand banks are privately owned. In these countries governments/central banks have broadly guided credit allocation through regulation and moral suasion. South Korea and Taiwan tightly controlled the allocation of credit by

public commercial banks. Each of these countries made attempts to direct credit to priority sectors, though the definition of the priority sectors varied from country to country. One common sector was exports; many of them gave automatic access to credit. Housing was a priority area in Singapore and Hong Kong, while agriculture and small- and medium-size enterprises were targeted sectors in Indonesia, Malaysia and Thailand. Again, Taiwan has recently targeted technological development. Japan and Korea have used credit as a tool of industrial planning to promote at various points of time ship-building and chemical and automobile industries. Negatively, they discouraged lending for consumer credit at the initial stages.

Thirdly, subsidised credit was not uncommon, in some cases the subsidy being sizeable. For instance, in Korea the subsidy for preferential credit was large during the 1970s. Subsidy was rather small in Japan. "Recent assessment of directed credit programmes in Japan and Korea provide macro-economic evidence that directed credit programmes in these countries increased investment, promoted new activities and borrowers and were directed at firms with high technological spillover".[13]

Shared Growth

Our approach to growth, as reflected in the reform package, itself appears to be flawed because the principle of shared growth does not form an ingredient of the package. The east Asian experience demonstrates that rapid growth is sustainable in the long run only if it is equitable. These high performing economies in east Asia are the only economies which have had high growth rates *and* declining inequality. The proportion of the population living in absolute poverty dropped dramatically in these economies from 58 per cent in 1960 to some 17 per cent in 1990. The decline was much steeper in some of these countries. The corresponding percentage in the case of India were from 54 to 43. As a result of this rapid *and* shared growth in these east Asian economies, human welfare has improved dramatically. Such sharing of growth in fact provides a sustainable base for long-term growth. In the case of India, although no hard data are available, the general impression seems to be that during the reform phase 1991-96, the benefits of growth, such as has taken place, have accrued to a small section of the population. Unemployment and underemployment are on the increase and the extent of poverty has perhaps not declined.

The problem of approach to growth is far more serious in the sense that it has become necessary to re-sensitise the present Indian policy-makers about poverty and unemployment and the need for state and central bank intervention to tackle these issues effectively. If the financial policies pursued dur... the 1991-96 phase are any indication, the monetary authorities have sought to wish away poverty. Even the World Bank, that citadel of market philosophy, in a recent report on India, makes the following statement: "The central message of this chapter [on agriculture] is that there is tremendous scope for unleashing the productive potential of agriculture to contribute more fully to overall faster and *more equitable* economic growth..."[14] (emphasis added). In the 1950s Indian planners made a seminal contribution to development economics by stressing the distribution aspects of growth. It is an irony of economic history that we have today to invoke the World Bank's exhortations to resensitise contemporary Indian policy-makers about the imperatives of redistribution.

In the present context, two aspects may be underlined. First, one of the primary activities of the government is redistribution: but the budget need not be regarded as the *sole* instrument of achieving this objective. In fact all arms of macro-economic management can contribute to the process of redistribution; and the financial system can play an important role in this task. Second, the east Asian experience has clearly shown that directed and subsidised credit could become an important ingredient of the policy-mix designed to facilitate faster growth *and* redistribution. Fortunately, the United Front government's initiatives do give rise to hope that financial policies in the third phase of evolution of the financial system would be re-moulded on these lines.

The Dilemma

It is in this sense that the third phase of the evolution of the Indian financial system faces the dilemma of choosing between the two cultures. The culture of the 'quick kill' and insensate profit-making nurtured by reforms in the second phase and a reaffirmation of the culture built up during the first phase, of commitment to pervasive growth with equity, reflected in the extension of support to small borrowers, small-scale industries, small farms and firms, the self-employed and the whole range of activities in the informal sector. If bankers are to revert to the former, this involves much unlearning on the part of bankers, particularly public sector bankers, of the 'skills' acquired during the second phase. It does *not* also mean a reacquisition of the culture of the first phase with warts and all: the inefficiencies of the first phase need to be eliminated. Use of performance-based criteria in the allocation of credit and application of commercial standards even within the priority sectors should be built into the culture of the first phase. The east Asian experience could provide useful guidance in reformulating financial policies on these lines. Again, there has to be some reordering of priorities in the reforms package, notwithstanding the stipulation of the Washington model. Rebuilding the rural credit system brooks no delay: it is as important as the application of 'Basle norms' to the banking system or development of the capital and debt markets. It is therefore suggested that a high-power committee be appointed to evolve a blueprint of the new rural credit structure, both in terms of institutions and modalities of credit delivery. The committee should also lay down the ground rules for different players in the system. All this involves activist policies both by the government and the RBI.

Notes

[This is the revised version of the author's valedictory address to the Refresher Course on 'Issues of Public Economics', at Bombay University on October 31, 1996.]

1 Joseph Stiglitz, *Annual Conference on Development Economics, 1993*, World Bank, Washington, DC, 1994, p 30.
2 *Report of the Committee on the Financial System*, Reserve Bank of India, Bombay, 1991
3 N A Mujumdar, 'Financial Sector Reforms – An Exercise in Introspection', *Economic and Political Weekly*, March 23, 1996
4 I G Patel, 'Limits of the Current Consensus on Development', *Proceedings of the World Bank Annual Conference on Development Economics*, World Bank, Washington, DC, 1994.
5 N A Mujumdar, 'Introduction', *Indian Journal of Agricultural Economics*, Golden Jubilee Number, January-June 1996.
6 N A Mujumdar, 'New Banking Culture and the Small Borrower', *Economic and Political Weekly*, September 12, 1995.
7 The finance minister recently admonished bankers for such excess investment in government securities. The fault, however, appears to lie with the public debt policy which has made banking easy by providing a high yield of some 14 per cent on zero-risk government securities, with zero transaction costs. Under these circumstances lending at even 18 per cent, with provisioning and risks and with high transaction costs, becomes less attractive!
8 Joseph Stiglitz, *IMF Survey*, Washington, DC, July 12, 1993.
9 Krishna Kumar Singh, *Times of India*, Mumbai, November 11, 1995.
10 Sucheta Dalal, 'Agenda for the Finance Minister', *Times of India*, Mumbai, November 7, 1996.
11 See in particular, Joseph Stiglitz and Marilon Uy, 'Financial Markets, Public Policy and the East Asian Miracle and Dimitri Vittas and Yoon Je Cho, 'Credit Policies: Lessons from Japan and Korea', both in the *World Bank Research Observer*, August 1996.
12 S S Tarapore, Address to Bombay Chamber of Commerce and Industry, October 17, 1996.
13 *East Asian Miracle: Economic Growth and Public Policy*, World Bank, Washington, DC, 1993.
14 *India: Country Economic Memorandum*, World Bank, Washington, DC, August 1996, p 75.

Housing Poverty in Third World

R N Sharma

Housing the Urban Poor: Policy and Practice in Developing Countries edited by Brian C Aldrich and Ranvinder S Sandhu; Vistaar Publications, New Delhi, 1995; pp 417, Rs 445 (cloth).

THE book under review is spread in five parts and 19 chapters, and covers 16 countries from the third world. The country case studies are organised in terms of their level on the human development index (HDI) developed by the United Nations Development Programme (UNDP). Life expectancy, literacy and level of income are the three indicators measuring the HDI. Accordingly, Hong Kong, Republic of Korea, Costa Rica and Mexico are ranked at the top (among the third world countries under focus) of the HDI. They are followed by Caribbean, Brazil, Colombia, Cuba, Thailand and China. At the lowest rung are Egypt, Zambia, Tanzania, Ghana, Pakistan and India.

Part I of the book consists of two chapters In chapter 1, the editors examine at length the problem of housing poverty of the 'developing societies', and then interpret the terms 'slums' and 'squatter settlements' and see how they reflect the 'poverty of housing' in these societies. The terms slums and squatter settlements are considered objectionable by the contributors – used at one point in the development of policy and practical responses to housing poverty as justification for clearance and relocation. Therefore, the term 'housing poverty' is used with the assumption of covering different aspects of habitat. Editors also describe the global process of urbanisation and its impact on third world countries. They review the variations in housing policies and practices. For the editors, the conflicting analysis of squatter settlements (or housing poverty) centres around whether the people in these settlements are part of the problem or part of the solution. They contrast the view of evolution of slums as the consequence of 'over-urbanisation' to that of the poor living in slums and subsidising the formal economy by not requiring large amounts of capital for housing and related services.

Chapter 2 focuses on the role of the World Bank in housing. It looks at recent changes in the World Bank policy in light of the negative consequences that traditional World Bank attempts at long-term macro-economic stabilisation and adjustment policies have had on near-term income and housing. Pugh (the contributor to the chapter) recognises a new political economy model which provides the legislative, institutional and financial framework whereby entrepreneurship in the private sector, in communities, and among individuals can effectively develop the urban housing sector. It is informed that in the housing sector, the World Bank had participated in the finance of 116 sites and services projects and slum upgradation schemes with its average loan of US $ 211 million in the period 1972 to 1990 in 55 countries. Perspectives and explanations of housing and poverty are linked to the IMF and World Bank macro-economic reforms in some developing countries. A discussion on the income poverty in developing economies and the role of IMF and World Bank are other highlights of the present paper. By citing examples of some Latin American countries, Pugh reveals that the austerity, stabilisation and adjustment programmes had severe effects upon incomes and poverty, and repercussion effects on (Brazil's) housing system and housing affordability. For him, innovative institutional arrangements would be needed because the poor have intermittent incomes and no collateral assets in land and property to secure their loan finance in the formal sector. The innovations would include a link institution between NGOs and formal financial institutions, to raise finance from these institutions and to ensure that the poor repay their loans. It is pointed out that, in fact, in 1991, UNCHS (Habitat) and the UNDP jointly launched an Asian-based project to develop market based housing financial systems which would be responsive to low-income groups.

The author identifies three main phases in the evolution of the World Bank housing policy. The first phase concentrated on the affordability-cost recovery-replicability. Its essential political economy was 'neo-liberalism' which placed its emphasis on individualism, free markets, and user pay principles. The second phase theory and practice of low income housing involved appreciation of the fact that housing was closely connected to macro-economic conditions and the need to create and use housing credit institutions. The third phase theory and practice of housing was developed in the years 1986 and 1992, with its thrust on the growth and development of the entire housing sector in its urban and national context. Under it, 'urban management programme' became the keyword with the aim of improving performance in developing countries in land management, municipal finance, infrastructure services, the environment, and building up the capacity of urban management institutions.

The part II includes case studies on four countries: Hong Kong, South Korea, Costa Rica and Mexico. Housing poverty in Hong Kong is described by Alan Smart in Chapter 3. Hong Kong has managed to rehouse 45 per cent of its population in public housing since 1945. The government used its extension controls to clear squatters, sell a major portion of the land to the private sector, and use the money thus obtained to rehouse the squatters. The boom in prices of land and housing is phenomenal. It is therefore not surprising that Hong Kong government attempts to maximise the production of land for the private sector. Unlike many other countries, Hong Kong has not yet regularised any squatter settlements. They remain in a limbo of illegality combined with toleration until the land is scheduled for development. Thus, according to Smart, the government policies are themselves to a large extent responsible for the poor conditions of housing in Hong Kong's squatter areas.

Jaesoon Cho and Jeonghee Park describe the South Korean situation in Chapter 4. Similar to many developing countries, the approach of government of South Korea to the slum and squatter areas varies from demolition and renewal to self-help upgrading, rehabilitation and renewal, and present urban housing renewal, and rehabilitation. All of them have only been partially effective. Like Hong Kong, rapid increases in rent and housing prices in Seoul have produced a new phenomenon of social pathology. A squatter settlement contains whole lives of the squatters.

Costa Rica, described in Chapter 5, is a special housing case. It received the 1987 World Habitat Award for a national housing programme which surpassed its housing target, integrated low-income families into the system and developed a family bond system of mortgages which successfully brought housing to members of the society with the lowest incomes. The innovative National Bamboo Project is described as a successful programme within a policy framework aimed at sustainable development.

Mexico's housing poverty is seen in relation to the process of uneven and rapid urbanisation of the country. The consequences of the 'economies of austerity' for housing are well discussed by Pezzoli. He observes that in Mexico city, 47 per cent of the families lack the income necessary to purchase or rent a dwelling unit available in the formal real estate sector. Like Mumbai, it is estimated that 1,000 people migrate to Mexico city every day. The result is that, by 1975, over 50 per cent of the metropolitan area's population lived in one or another variety of degraded houses (colonia popular). The author describes some popular urban movements centred around the issue of land and housing. He cites the observations that

one of the most significant characteristics of recent social movements is the depth of their critique, and the extent to which an alternative approach to development is sought The critique stems from a view that the crisis in Mexico and throughout Latin America is not only economic and even less only financial – it is a crisis in the mode of development with far reaching ecological, as well as social, ideological, and political dimensions Thus, the urban housing crisis goes beyond issues of land allocation and management into broader issues concerning livelihood opportunities, developmental sustainability and ecological balance. One can find resemblance in the situation of Latin American countries to that of India.

Case studies on Caribbean, Brazil, Colombia, Cuba, Thailand and China form Part III of the volume. The case studies show that an extensive effort has been made by these countries to deal with housing poverty. The chapter on China is considered as an exception, with the observation that it has concentrated more on improving income, health or education than housing. The paper on Caribbean islands shows a major intervention by the World Bank or USAID in tackling the housing poverty. It brings out the fact that adequate local community resources are available to initiate and organise low-income housing projects. However, as in other third world countries, political institutions lack the motivation and will power to achieve any significant successin the area. The case study on Sau Paulo (Brazil) describes the struggle for urban space becoming intense day-by-day mainly due to the land and housing turning commodities in the market for profiteering and speculation. Similar observations are made on Colombian housing problems: rapid urbanisation, low incomes and a national housing policy indifferent to the needs of low income urban residents.

The case study on Cuba concludes by stating "that the Cuban state has developed impressively imaginative and flexible housing strategies" through measures like overcoming poverty, elimination of land and property speculation, and removal of the insecurity of tenure. With the collapse of communist power in the USSR and eastern European countries, the resources of Cuba are adversely affected and are bound to halt the struggle against housing poverty.

The chapter on Thailand mainly focuses on Bangkok. Housing poverty in the city is considered either the most backward or the most advanced, depending on one's perspective. It is observed that the population of 30 randomly selected slums in Bangkok have a higher income that the population of the Bangkok metropolitan administration as a whole. In spite of this, against the operating of free-market situation in various sectors including the housing sector, the government could not succeed in providing formal housing (with minimum costs) to a majority of the slum dwellers. In the late 1980s, private developers moved into the low-cost housing market, producing large numbers of complete land-and-housing units in the outlying suburbs. Although unaffordable for the lowest income groups, the houses made an important contribution to the housing stock in Bangkok. Whereas in the 1970s and early 1980s, the World Bank tried rather unsuccessfully to introduce slum and slum settlement regularisation and upgrading programmes in the city, the success of the private sector to produce low-cost housing has made Bangkok the primary example for the effectiveness of recommendations by the World Bank and the USAID to deregulate the housing market.

The case study on China is seen (by the editors) as an important part of global housing poverty because it contains such a large proportion of the population on the planet. In communist-ruled China, Stalinist type solutions controlling the movement of people; emptying out the cities, are identified as mainly responsible for deterioration of much of the urban housing stock in the major cities, and the creation of housing poverty. The emphasis upon production at the expense of (housing) consumption added to the housing poverty. The 1978-92 period is considered to be one of contradictions: between the socialist ideals of elimination of socio-economic disparities and the economic goals for rapid development. Consequently, the recent development of a dualistic urban structure in the supposedly prosperous cities of China, according to the author, will most likely shape settlement patterns in urban areas in the future.

Part IV on housing under 'low levels of human development' includes case studies from Egypt, Zambia, Tanzania, Ghana, Pakistan, and the last of all, India. All these countries face common problems; overall low levels of development, high population growth, en mass migration of the rural poor towards a few growth oriented urban centres, vast inequalities in living standards of people due to rising socio-economic disparities and inefficient and corrupt bureaucracy and political leadership. Such a situation has led to a dual housing market in large cities – a formal costly 'free housing market' catering to the needs of less than a half of the urban population and an informal 'affordable' market serving the lower strata of population. In such a situation, populist measures are adopted by governments of these countries. Sites-and-services, upgrading, newly built houses – through national or international funds – are used in tackling the housing poverty. Simultaneously, evictions, demolitions and resettlements have their own place in the urban renewal process. The variations are there: like Tanzania attempting to solve the problems of land and housing in a socialist mode; or land tenure under the control of traditional family and tribal relationships still influencing the provision of urban housing in Ghana.

Part V presents the concluding chapter by Choguill. He observes that the planners and technicians have to have the skills of a community organiser if rehousing projects are to succeed. Likewise, NGOs have to know basics of technology and finance for their effective involvement in housing projects. This is considered necessary as the 'top-down imposed bureaucratic and technically proficient solutions have not saved the day. Now the emphasis is on the recognition of the key role of the local participants in the process: local governments as enablers, local neighbourhood residents as facilitators, and local entrepreneurs as providers of cost-efficient solutions.

The editors need to be complimented on compiling case studies on housing poverty from a large number of third world countries. Though most of the papers are well-written, the substantial contributions are by the editors ('Global Context of Housing Poverty') Cedric Pugh ('The Role of World Bank in Housing') and C L Choguill ('The Future of Planned Urban Development in the third world').

A couple of inadequacies need to be pointed out. While discussing the 'alternative models of urbanisation and housing', the editors whisk away the Marxist approach to housing, by stating that the socialist countries treat housing production as a non-productive capital expenditure. But the reflections of Marxist thinkers on 'struggle for urban space and its context, in political economy of city' cannot be overlooked. Thus, though the writings of thinkers like Manuel Castells, David Harvey or Peter Saunders may not be central to the theme of housing, they have made useful contributions to the theory of urban space and its relationship to social services like housing.

In a similar way, those who question the role of international organisations like World Bank or IMF in interfering into political and economic affairs of the poor countries, may find the book irksome as it is overloaded with the World Bank approach to the poverty of housing and description of its projects in several countries.

The paper on India by Sridharan is rather disappointing as it is more confined to Delhi city and largely based on official reports.

Interestingly enough, though the contributors unmistakably identify reasons after reasons for growing housing crisis in largely populated cities, in no way a definite solution emerges to it. If the 'socialist' approach is responsible for inadequate housing construction and decaying of the existing stock, the 'free market' approach seeks ever-evasive solutions like 'need of strengthening the financial institutions' or 'need of efficient governance of housing projects and enabling the poor to secure land tenural rights'. One may therefore infer that, in future, the housing poverty will further intensify.

Overall, the edited volume is an outcome of well-researched work and is a significant contribution to the literature on housing.

Dalit Christians in India

S M Michael

Dalits in India: Religion as a Source of Bondage or Liberation with Special Reference to Christians by James Massey; Manohar, New Delhi, 1995; pp 206, Rs 300.

DALIT Christians are those converted to Christianity from the scheduled castes, but excluded from official list of scheduled castes, made by the Government of India (GOI). The term, Christian dalits, was adopted in preference to the nomenclature, Christians of scheduled caste origin (CSCOs) or harijan Christians, to emphasise the dignity and humanity of dalits.

There are about 16 million dalit Christians in the country and they form over 60 per cent of the total Christian population of 25 million. The Christian dalits increasingly share a general sense of oppression/discrimination in the church and society, on account of their low-caste origin. Arising out of this double discrimination they suffer multiple alienations: (i) from the rest of the dalits, (ii) from upper caste Christians, (iii) from the upper castes in society, (iv) from the government agencies, and (v) from cultural conflicts leading to confusion in their self-identity (Christian or scheduled caste).

It is a fact that casteism exists in the chruch in India despite of their clear break with Hinduism and the caste system. The oppressive past of the dalits continues to haunt them in their new faith. Caste identity continues to override religious identity. In 1929, a delegation of scheduled caste Christians stated in a deposition before the Simon Commission, "We remain today what we were before we became Christians - untouchables degraded by the laws of social position in the land, rejected by caste Christians, despised by caste Hindus, and excluded by our own Hindu depressed class brethren".

Even today, in predominantly Christian villages, the dalit colony is distinct and separate from the upper caste settlements, there are separate church buildings, hearses and cemeteries for them.

The economic condition of dalit Christians are also deplorable. Data on educational mobility and occupational advancement of Protestants in Madras reveal that the dalits are largely left out in the cold. Material from Andhra Pradesh, Kerala and Karnataka also shows that the dalits have not improved their economic position substantially with conversion.

More seriously, there are several forms of social discrimination against dalit Christians. In Tamil Nadu, they are residentially segregated from the higher castes. In Kerala, they are largely landless labourers, and work for Syrian Christians and other landed upper castes. There is no question of inter-dining or inter-marriage between the dalits and the Syrian Christians.

A study undertaken by the Jesuits in Tamil Nadu reveals that 79.6 per cent of the dalit Christians are landless, with their average annual income put at Rs 903; 54 per cent live under single layer thatched roofs. In the rainy season the houses get flooded, and no one can sleep during the night. The illiteracy rate is 65 per cent. Nearly 35 per cent of households manage with one set of clothes. Though dalit Christians constitute 70 per cent of the total Catholics in Tamil Nadu, there is only one dalit bishop and a mere 3.8 per cent of the priests are dalits.

Though a minority, Christians provide over 20 per cent of all facilities in primary education, and in the cases of other educational, health and community welfare services, provide facilities far in excess of their numbers. The evidence shows, however, that the church has clearly failed to give to the dalits the full advantage of its educational facilities. The opportunities made available by it have disproportionately benefited upper caste converts, and the dalits have been barely touched.

Whether the church can remain Christian while accommodating the caste system, is open to question. But the fact is that Christianity has not been entirely successful in obliterating the caste system among the Christians in India. Though the existing caste consciousness is unfortunate, it is hardly surprising. The caste system is so deeply ingrained in India that it has been able to absorb most religions like Buddhism, Sikhism, Islam and Christianity which are based on equality.

The caste system is a socio-cultural system based on a hierarchical view of society. Though it is supported by economic and political factors, it is primarily a socio-cultural system that depends on how one looks at others in terms of their work and at the order of society based on the hierarchical division of labour, determined by birth and legitimised by religious theory and practice. While Christianity may not legitimise the system in terms of its religious faith, it has certainly admitted it in social and religious practice. The Christian community can never be a witness to a fellowship of brothers and sisters if it does not abolish the caste system from within its ranks. But unfortunately, the church cannot really abolish the caste system - especially its dalit component - from its own social body, if it does not work to abolish it from the whole society. As Ambedkar points out India requires a cultural revolution to root out caste discrimination.

Meanwhile the dalits converted to Christianity have lost the constitutional safeguards meant for the scheduled castes and scheduled tribes. At the time of independence, special provisions for the SC/ST were included in the Constitution. These embraced the reservation of seats in legislatures, educational institutions and public sector employment. By a presidential order it was decreed in 1950 that 'no person who professes a religion different from Hinduism shall be deemed to be a member of a Scheduled Caste'.

In 1956 the Sikh religion was included with Hinduism as part of this order. The subject of extending reservations to the SCs of other religious groups was discussed during the debate on conversions to Buddhism in 1961. The government's position was that the untouchables from non-Hindu ommunities could not be extended benefits because the other religions did not recognise the existence of caste and to accept their claims would be to introduce casteism into Buddhism, Christianity and Islam. Nevertheless, in the face of continued protests, the government extended reservations to neo-Buddhists in 1990.

In spite of the dalit Christians' demand to be included in the scheduled caste list of the presidential order of 1950, their plea has not been heeded. In fact, a dalit Christian today is thrice discriminated against - by the state, the church and by the non-dalit Christians.

A few examples will illustrate the above facts: it was alleged that on Novemebr 12, 1976 at about 6 pm in a sub-treasury office in Vellore fort Thiru K V Srinivasan insulted V S Lourdu, a member of the scheduled caste, on the ground of untouchability by calling him a "pariah". When the matter was taken to the court, the judge dismissed the case because the aggrieved party was a dalit Christian. This judgment shows that it is not against the law to offend a Christian dalit by practising untouchability against him/her. This means, if ever any one is accused of violating the protection of civil rights act against a Christian dalit, he need not worry.

Soosai (a Tamil synonym for Joseph), a dalit Christian, is a cobbler by profession. He had nine children, of whom seven died of malnutrition and lack of medical care. He lives on the pavement of Madras doing his daily job as a cobbler. He spreads his wares on the sidewalk of the street, since he does not have a roofed place for his profession. A few years ago he was enumerated for receiving government assistance, a bunk to keep his kit and a sewing machine to stitch leather goods. This assistance is given to all members of the scheduled caste engaged in the profession. When all the cobblers working on Kodambakkam High Road in Madras were called to receive the assistance, Soosai also went with them. Everybody was given the assistance except Soosai. Soosai was informed by the government officials that he was not entitled to the benefits and privileges extended to other scheduled castes people because he happened to be a Christian. This is a clear case of discrimination against Christians based on religion, though our Constitution does not permit discrimination on grounds of religion. When the matter was taken to the Supreme Court, the judgment said (September 30, 1985): "It is not sufficient to show that the same caste continues after conversion. It is necessary to establish further that the disabilities and handicaps suffered from a caste membership in the social order of its origin – Hinduism – continue in their oppressive severity in the new environment of a different religious community".

The GoI has studied this matter through its several committees. For example: the Kumara Pillai committee report submitted to the Kerala government in 1965 states: "We are convinced that in practice converts (to Christianity) from scheduled castes are treated as socially backward". The Santhanam committee report of 1970 says: "The same spirit of renaissance which animate the Indian SCs has not spread to the Christian sections and due to the absence of employment opportunities similar to those reserved or SCs, there was no temptation for the converts to go into higher education". And the Chidambaram report in 1975 admitted "that casteism is practised widely among the members of the Christian fold as judged by the characteristic of caste system and going by the economic status of the harijan Christians. It is evident that they are a poverty-stricken lot". The Mandal commission report of 1980 affirms, "there is no doubt that social and educational backwardness among non-Hindu communities is more or less of the same order as among Hindu communities. Thus, both from within and without, caste amongst non-Hindu communities receive continuous sustenance and stimulus".

In a judgment dated December 14, 1993, Justice J Kanakaraj at Madras high court, says that the plight of dalit Christians is none the better after conversion. It is a 'popular myth' that when a person converts, he is accepted and treated as equal to others.

In spite of the above evidences, inclusion of dalit Christians for the reservation benefits as being given to the Hindu, Sikh and Buddhist dalits, is an emotionally charged political issue in India. No political party, left or right, looks seriously at the concept of reservation for dalit Christians impartially. The Bharatiya Janata Party (BJP) has been consistently opposing the idea, apparently shedding tears for the non-Christian dalits. One reason the BJP is opposing the move is to strengthen its agenda of re-conversion as no Christian dalit would return to his original non-Christian identity if he gets reservation benefits as a Christian. With the mounting resentment among the dalit Christians against the church, the Hindu revivalists think re-conversion is easier in the Christian community than in the Muslim community. Not very long ago a number of dalit Christians in Tamil Nadu joined the Arya Samaj for scheduled caste status (*Indian Express*, March 3, 1994).

Other political parties calculate the political advantage or disadvantage in extending reservation to the dalit Christians. While the controversy rages, the plight of the dalit Christians continues.

A dalit is a dalit, whether Christian or not. They are basically toilers, landless peasants, rural wage labourers and workers in the tertiary sector where working conditions border on the medieval nightmare. they are contractual labourers across the length and breadth of the country and those who oppress them do not differentiate between Christian dalits and non-Christian dalits. If casteism is a socio-economic phenomenon, and caste is the criterion for reservation, why deprive a certain section of the society of the benefits on the basis of creed? The dalit Christians are socially, economically and religiously discriminated. Is it just and in accordance with the spirit of the constitution, which is based on secularism and justice, to deny to some, what others enjoy, only on the grounds of one's creed?

The dalit Christians' point of view is that the duty of the secular state is to address the issue, of its declared policy of not discriminating against citizens on the basis of religion. The book under review is a plea in this direction.

The 'Problem' of the Urban Poor Policy and Discourse of Local Administration

A Study in Uttar Pradesh in the Interwar Period

Nandini Gooptu

Based on a case study of four of the largest towns of Uttar Pradesh, this paper discusses the measures of the local authorities to reduce urban overcrowding, to improve sanitary and public health conditions and to implement town-planning schemes, all of which were undertaken in the interwar period on a far more extensive scale than ever before. It demonstrates that these policies contributed significantly to the 'creation' of the 'problem' of the urban poor, both materially by intensifying their scarcity of housing or impairing their sources of livelihood and discursively by categorising them as a distinct social group defined by their undesirable habits and practices.

I

IN the years between the world wars, the large urban centres of Uttar Pradesh witnessed unprecedented migration and demographic expansion. The rapid growth of population in the 1920s and the consequent pressures on economic opportunities and on land in the Uttar Pradesh countryside, followed by the agrarian depression of the early 1930s, eroded the sources of livelihood of many rural people. This stimulated the migration of rural labourers and poorer cultivators to the larger towns is search of employment.[1] The rural poor flocked to the towns and found work as manual labourers, hawkers and vendors. The process of migration brought into being a far larger underclass of the poor in the towns, swelling the ranks of the labourers and petty traders who were already there. The growing presence of a floating population of poverty-stricken job seekers and the emergence of the labouring poor as a significant social force in the towns generated grave concern amongst the urban propertied classes. The latter perceived the poor not only as a potential source of urban disorder and crime, but increasingly also as the chief impediment to orderly and clean urban development and as a threat to their own health and well-being. This in turn precipitated major changes in the policies of the urban local bodies, which were manned by municipal councillors, elected by the propertied rate-payers or nominated by the government.[2] The urban local authorities, representing the attitudes of their constituency of propertied classes, identified the poor as the main perpetrators of growing urban overcrowding and insanitary conditions. These attitudes were reflected in town planning schemes, in measures to improve public health conditions and in drives to clear congested areas, all of which were undertaken by the local authorities on a far more extensive scale than ever before, from the 1920s onwards. Hitherto unprecedented initiatives were taken to reorder the patterns of land-use, settlement and economic activities in the towns.

The impact of this on the poor was two-fold. First, the extensive town improvement policies served only to accentuate the scarcity of housing for the poor, often with a deterioration in their living and health conditions. This was, however, not simply because the poor were the targets of measures to reduce urban overcrowding, but also because local policies reflected the interests of the rate-paying electorate and, therefore, sought to meet the escalating demands for urban land and housing primarily of the middle classes and commercial property developers. There were of course some efforts to provide housing for the poor, but these were woefully inadequate. Local policies in the 1920s and 1930s also entailed greater intervention to regulate and control the economic activities of some sections of the poor, for they were considered to be dirty or insanitary not only in their residential habitats but also in their working practices. Such measures often seriously restricted and limited employment opportunities for the poor and impaired their sources of livelihood. Second, the urban improvement programmes were accompanied by a more and more overt discourse of local administration which characterised the poor as the main source of filth and squalor. As in any discourse, in this one too there were various strands: whilst some were concerned to segregate the poor and remove them from the residential and commercial areas of the propertied or the middle classes with a view to making their own environment more hygienic and less crowded, others were more given to the benevolent aim of alleviating the problems of health and housing of the poor. However, both these tendencies harboured similar negative stereotypes about the character and habits of the poor as the harbingers of dirt and disease. Urban local policy and its underlying attitudes towards the poor in the interwar period thus contributed significantly to the 'creation' of the 'problem' of the urban poor, both materially by aggravating their scarcity of housing or intervening in their economic activities, and discursively by categorising them as a distinct social group defined by their undesirable habits and practices.

The history of urban local administration in British India and its role in shaping the relations both between the colonial state and the indigenous elites and amongst the latter, as well as its impact on transforming the physical appearance of and social relations in the towns, has attracted the attention of many scholars.[3] In comparison, the implications of local administration for the poor have been much less systematically explored, except in the specific case of measures relating to the control of such diseases as the plague or cholera.[4] Yet the twists and turns in local administration extensively affected not only those who had access to the corridors of power of local institutions, either as members or as rate-paying electors, but also those who had little directly to do with the politics of local bodies but who were the recipients and objects of the policies. This paper explores how the predicament of the poor in the towns was worsened by human agency and administrative decision-making in the course of public health improvement and town planning projects in the interwar period. The paper also analyses the nature and extent to which the diverse interests of the propertied classes were reflected in local policies and assesses their implications for the poor. Finally, the paper seeks to illuminate the ways in which the poor were characterised in local policy discourse. This study is based

on four of the largest towns of Uttar Pradesh (UP): Kanpur, Lucknow, Allahabad and Benares

II

The characterisation of the poor as the breeders of disease as a guiding principle of local policies was not entirely new in the 1920s and 1930s. In the 1890s, when the plague hit many Indian towns and the notion prevailed that plague was a disease of filth and squalor, there emerged widespread concern among British officials about those whom they singled out as the main inhabitants of insanitary and overcrowded areas – the poorer sections in the towns. These views were however more prevalent in the administrative circles of such presidency towns as Bombay and Calcutta, which were not only worst affected by the plague but which already had large labouring populations and working class neighbourhoods in the 19th century due to the presence of major industries. In UP, in contrast, the concern with the poor in municipal administration was much less except in the industrial centre of Kanpur with its workers in the textile and other mills. However, even in Kanpur vigorous plague control measures had been eschewed and attempts to sanitise the poor had been reined in following an initial burst of zeal in 1900 which provoked riots in the city.[5] Besides, the plague reached UP later than the presidency towns, by which time the government of India had tempered or abandoned draconian plague control measures in view of the serious disturbances precipitated by such interventions in the 1890s.[6] In the UP towns, by and large, extensive measures to deal with insanitary conditions or overcrowding and with the poor had remained limited, although not absent, until the first world war,[7] haunted as the British officials of the municipal boards were by the spectre of the Mutiny and the fear of another uprising in north India. As a consequence of this policy of restraint in UP, discussions about the habits and traits of the poor, and overt or active policy prescriptions concerning them, were also far less prominent in the early decades of the 20th century. All this, however, changed in the 1920s. This was primarily because of the significant expansion in the numbers of the urban labouring poor and the growing perception that they were the cause of worsening overcrowding and insanitary conditions. The change also arose from the fact that the British government largely withdrew its official presence from local institutions after the first world war and further devolved local power to the Indian elites. The latter were less apprehensive of the threat to state power arising from a popular uprising and more concerned to deal with what they perceived to be a direct threat to their own health and well-being posed by the influx of the poor. From the point of view of British officials, a degree of interventionist local policies could be permitted from the 1920s, as any possible popular discontent could be expected to be directed more towards the local elites, now at the helm of affairs, and less towards the colonial state.

In UP, therefore, the question of town planning and urban improvement gained urgency among the local authorities after first world war. Already during the war, the municipal boards in the major UP towns had commissioned town planning experts to suggest schemes for urban sanitary improvement. Such schemes were outlined in a number of reports on town planning. The report for Lucknow was submitted by Patrick Geddes in 1916, for Allahabad by Stanley Jevons in 1919, and for Kanpur in 1917 by the Kanpur Expansion Committee headed by Henry Ledgard, the chairman of the Upper India Chamber of Commerce, and subsequently by H V Lanchester, the town planner, in 1918. The urban improvement schemes proposed in these reports were far-reaching and entailed the extensive acquisition of land and re-planning of insanitary and congested areas, as well as urban territorial expansion through the reclamation of undeveloped land within and on the periphery of the towns. The execution of such extensive schemes was beyond the administrative power or the financial capacity of the town improvement committees of the municipal boards, which were so far responsible for urban improvement schemes.[8] Moreover, the government considered it necessary to form separate and independent bodies for town planning, with minimum involvement of British officials, the government being disinclined to be directly engaged in town planning activities for fear of facing popular discontent, which was likely to arise from large-scale intervention in land use and settlement patterns in the towns. Accordingly, to expedite the implementation of town improvement and planning schemes at the end of first world war, the provincial government passed the UP Town Improvement Trusts Act (No VIII) in 1919. Improvement trusts were formed in Lucknow and Kanpur in December 1919 and in Allahabad in 1920. The trusts were to be independent of the municipal boards and would be formed by prominent townspeople, nominated by the government and usually chosen from the commercial communities or professional groups. According to the Trusts Act, the new improvement trusts were to have greater powers than the town improvement committees of the municipal boards with regard to compulsory land acquisition and re-planning of townscapes. The government also extended initial grants to the trusts in order to finance their schemes.[9]

The inception of the improvement trusts after first world war inaugurated a new era of urban town planning and sanitary policies in UP. The non-official members of the trusts abandoned the earlier official policy of caution of the municipal boards in implementing measures for sanitary improvement. The trusts had come into existence with town planning as the main thrust of their policy. However, as H V Lanchester, one of the town planners who framed improvement schemes for several UP towns, pointed out, town planning in India "arose out of health measures, dealing with insanitary and overcrowded areas."[10] As a consequence, the acquisition, demolition and clearance of overcrowded and insanitary areas constituted a chief activity of the trusts. With the creation of the institutional authority of the trusts with extended powers, projects for the clearance of insanitary areas began to be implemented on a more systematic and hitherto unprecedented scale in the towns. The main targets of trust schemes for urban improvement were the poorer sections in the towns, who were identified as the perpetrators of 'plague spots'. Indeed the term 'plague spot' developed as a metaphor to signify the undesirable and unhygienic habitat of the poor rather than as the epicentre of the disease itself. The notion that the poor were chiefly responsible for insanitary conditions was now overtly deployed in the clearance drives. This was clearly stated by the town improvement trusts committee in 1929, which reviewed the activities of the various trusts from 1920 and recommended further schemes of town improvement:

> A primary duty of the Trusts is the clearing of insanitary and congested areas. It is ordinarily inevitable, therefore, that the process of improvement mainly affects the poorer portion of the population, whose habitations are generally both insanitary and congested.[11]

Thus, with the establishment of the improvement trusts attempts to deal with the living quarters of the poor gathered momentum and developed in new directions. The main strategy adopted by the trusts was to try to clear overcrowded settlements within the towns, with the aim of transferring and segregating the poor who lived in these areas to the urban outskirts. This policy was clearly enunciated by the various town improvement trusts committees, which considered the activities of the trusts every five years and framed guidelines for the future. The report of the committee of 1929 stated that "the transference of these labourers to places outside the heart of the city is the first step necessary for the relief of the present congested and insanitary condition".[12] The committee of 1935 stressed the need to

continue this policy towards the houses and settlements of the poor, which "occupy the spaces in between the better residential and commercial areas" and which "are regular breeding grounds of disease and are the main factors in the prevailing high rate of infantile mortality". The committee went on to state, "it is proposed to clear them and transfer the greater part of their occupants to sites outside the city".[13] Evidently, the most important solution to urban sanitary and health problems was considered to be the removal and segregation of the poor to urban outskirts, in order to keep them away from the "better residential and commercial areas". However, in some quarters, there was also concern about the adverse effects of these policies on the poor, alongside a wider interest in overall improvement of urban sanitary conditions. The annual report of the Allahabad municipal board in 1941-42, for instance, attempted to advocate the cause of the poor and argued for the need to lay out housing areas for the poor by the improvement trust. However, this report too betrayed the view that separate sites for the poor were necessary not simply because they needed housing, but also because they created 'plague spots' in the residential areas of those identified as 'decent people'.

> The areas that have been well planned and [where] good schemes [for middle class housing] have come into existence suffer from great insanitary features due to the entrance of poor class men. [who] made the dwellings not what they would otherwise have been .. By the time the full scheme comes into play and the houses are occupied by *decent people*, the scheme will be traversed by poor class men... This has led to the growth of *plague spots* even in those areas that are improved. A well conceived scheme for housing of various classes of poor in different parts of the town is long overdue (emphases added).[14]

The increasingly keen urgency of the local authorities to isolate the poor was clearly revealed in the course of controversies over the neighbourhood of Khalasi Lines in Kanpur. Mill workers, hawkers and casual labourers lived in hutments in this area, which was located on the periphery of the British civil lines and the bungalow complex of officials of local textile mills and other factories.[15] The inhabitants of Khalasi Lines had been repeatedly complaining to the municipal board of lack of water supply and public latrines in the area.[16] On their failure to persuade the municipality to provide these facilities and lacking public latrines, in 1932 some of them deliberately invaded an intervening vacant plot of land between the Civil Lines bungalows and the Khalasi Lines settlement and began to use it as an outdoor latrine. This caused severe consternation among the bungalow residents, who urged the chairman of the improvement trust to "stop this nuisance", on the argument that the area was "surrounded on all sides by superior residences".[17] The municipal board then posted policemen in the area to prevent the invasion of the field near the bungalows and ordered them to arrest and prosecute 'offenders'. This led to skirmishes between the Khalasi Lines people and the policemen. Prior to these events, already before 1932, the Khalasi Lines settlement had caused much soul-searching among improvement trust authorities about the "advisability of developing this area [i e, Khalasi Lines] for workmen's quarters, seeing that opposite there are Civil Lines bungalows".[18] H V Lanchester, the town planner who had framed town improvement schemes for Kanpur, was also reported to have said that "he could not tolerate the continuance of this insanitary hamlet in the midst of the bungalow area".[19] The tensions in the Khalasi Lines in 1932 eventually prompted the trust to adopt an unequivocal decision to remove the hutments from the area.[20] The controversy over the settlement of Khalasi Lines is a typical example of the perception of the local authorities that the proximity to the habitations of the poor threatened the public health conditions of 'superior residences', which in turn justified attempts to remove them from the vicinity of the residential areas of the 'decent people'.

Based on the twin aims of clearing urban congestion and protecting the so-called 'superior residences' or 'better residential and commercial areas' from insanitary conditions, the municipal boards and improvement trusts in the interwar period increasingly acquired and demolished overcrowded settlements of the poor and evicted the residents. Obviously the poor could not be forcibly shifted and isolated *en masse*. Attempts were, however, made to clear out many of their residential buildings and slum areas in the central areas of the towns through the 'internal' schemes of the trust and by enforcing municipal sanitary by-laws. Armed with powers to acquire land on a compulsory basis, the trusts immediately after their inception in the early 1920s began to acquire insanitary or congested land extensively. The town improvement trusts committee of 1924 reported that the trusts deliberately acquired large areas of land "as quickly as possible" to avoid "speculation in land and the consequent rise in its price".[21] The 'kuchcha' or temporary hutments of the poor and their dilapidated, insanitary or overcrowded houses were naturally the first targets of acquisition and demolition. This was also partly because these houses, being either temporary or in conditions of disrepair, required low demolition costs and cheap rates of compensation for acquisition.[22] Moreover, the tursts took the view that the construction of buildings constituted the most valuable use of land and considered the occupation of land by the temporary kuchcha hutments of the poor to be a waste of vital urban land, and such land was usually acquired and the hutments were demolished in preparation for building construction. The town improvement trusts committee of 1929 acknowledged that the "poorer classes of the population in these areas [i e, scheme areas] come in for the major share of demolition."[23]

The schemes for clearing congested and insanitary areas began to displace large numbers of the poor from their existing dwellings. The annual report of the Lucknow improvement trust in 1922 admitted that 'dehousing' was a new but unavoidable problem arising from trust activities.[24] The town improvement trusts committees in 1924 and 1929 also confirmed that 'dehousing' was extensive.[25] The actual extent of loss of housing is difficult to estimate. Exact figures are available only for one case in Kanpur, which gives an indication of its magnitude. In 1929 a census was taken of those who would be 'dehoused' as a consequence of trust schemes in 27 slums. The census showed that 9,351 people living in 2,400 houses would be dislodged, of whom 3,200 were mill workers, 4,191 general labourers, 376 'ekka-tonga' drivers (drivers of horse-drawn hackney carriages), and the remaining 1,584 were petty shopkeepers, domestic workers and others (possibly casual, manual labourers and such self-employed groups as milkmen, carpenters and metal smiths).[26]

The loss of housing in the central areas of the towns was often coupled with a threat to the sources of livelihood of the affected groups, since the places of employment of the poor were usually located near their previous dwellings, especially in the case of labourers and petty traders in centrally-located bazaars. In 1926, for instance, a scheme to clear overcrowding in the Nachghar-Birhana area in Kanpur, situated in the 'bazaar-mandi' (retail and wholesale markets) heartland of the city, displaced the 'lodhas' who lived in the area and worked in the adjacent pulse-grinding workshops in Dalmandi (pulses market). Shifting away from the bazaar zone to urban outskirts made it impossible for them to have easy access to their place of work in the grinding mills.[27] The town improvement policies thus adversely affected both housing conditions and economic activities of the poor.

III

Whilst the policies of the improvement trusts and the municipalities caused extensive loss of housing of the poor, the provision of alternatives was entirely inadequate. In theory, the 'internal' schemes of the trusts

to clear congestion and overcrowding were to be supplemented by the simultaneous 'external' schemes of town expansion in order to accommodate the 'dehoused'. The 'external' schemes of development and reclamation of land were adopted to open up new areas for settlement in certain undeveloped pockets within the towns and in urban outskirts. However, as pointed out in an annual report of the Allahabad municipal board in 1937-38, such 'external' schemes had "simply afforded opportunities for the well-to-do middle class men to expand themselves in these areas... They [the poor] have not found, in the improvement trust scheme, suitable quarters for their housing".[28] The problem was not so much that the trusts failed to lay out new sites but that the poor had little access to these areas and the beneficiaries were the middle classes.

A priority of the trusts from the outset had been to cater to the demand for land for the construction of buildings. The annual report of the Lucknow improvement trust in 1942 mentioned that the trusts, in the previous two decades, had tried to meet two specific kinds of demand for land for construction. The first kind of demand cited was for residential houses for the urban professional and administrative groups and affluent business people. The policy of the trust was to open up land on the periphery of the city and sell these at relatively low prices for the construction of residential buildings. To counter the low profits accruing from these sales, the trusts tried to meet a second kind of demand for land by commercial investors or property developers. The trusts acquired and redeveloped land in the central areas of the town and sold these for high prices at auctions to property developers, who constructed buildings for letting to shops and commercial establishments.[29] As a result of the policy of the trusts to sell newly developed, reclaimed or acquired land either to capitalist investors or to the middle classes, increasing areas of urban land were being built over for commercial purposes or for middle class residential use. This, in addition to the consequent escalation of land prices, created a scarcity of land for the settlement of the poor The Kanpur improvement trust admitted this fact with remarkable candour and a touch of worldly philosophy: "It is not the rule of the trust, but of the world, that it is the rich that get served first".[30]

The disinclination of the trusts to provide land for housing of the poor and their eagerness to cater to property developers and real estate investors and to meet the residential needs of the middle classes were undoubtedly because the trustees represented the propertied and commercial classes in towns. Indeed, the trustees and their associates were often themselves interested in investing in land and building construction. However, a financial consideration was cited by the trusts to account for their inability to allocate land for the poor. From the point of view of the trusts, selling developed land at cheap prices affordable by the poor, or constructing houses to be sold or rented to them at low rates, would not yield substantial returns. The trusts, therefore, considered it financially non-viable to adopt such "unremunerative schemes" "without a sufficient recurring income".[31] The trusts did not have any such source of recurring income. The initial grants available from the provincial government for town improvement were spent on paying compensation for acquisitions and were locked up in development expenses. To ensure a subsequent flow of income and to remain financially solvent, the trusts therefore sold their developed land to capitalist investors or to affluent people, who could pay high prices for trust land. In view of this financial outlook, the Kanpur trust, for instance, arrived at the firm decision, early in its life in 1921-22, that "it is not economic [for the trust] to put up low rented buildings on [trust] land" to house the poor.[32] The trusts therefore chose to operate as commercial ventures rather than as public service institutions intending to subsidise housing for the poor. The trusts had the option of utilising their incomes either to provide housing for the poor or to open up further areas for middle class residences. Financial logic, buttressed by the powerful concern to create safe and sanitary havens for the middle classes, free and far from the threat of the 'insanitary' poor, clearly clinched the issue in favour of the middle classes.

The scarcity of housing land for the poor, precipitated by the policies of the improvement trusts from the 1920s, intensified further by the early 1930s as the demand for building sites by the propertied classes increased even more substantially from the time of the depression.[33] Already from the late 1920s, indigenous bankers in the UP towns had begun to invest their capital in urban land owing to the declining profitability of their banking business, faced with competition from joint-stock banks.[34] The economic depression of the early 1930s further stimulated investments on land. The town improvement trusts committee of 1935 attributed it to "the prevailing cheapness of money which makes the purchase of land and construction of houses more profitable than other forms of investment".[35] Moreover, the crisis in the agrarian sector during the depression redirected capital to the towns. In Allahabad, for instance, some rural landlords sold their lands in the countryside as they were faced with difficulties in the collection of rents from their tenants. As an alternative form of investment, they bought urban land to develop housing schemes for the middle classes, to earn rental returns.[36] Affluent lawyers and government officials also invested in purchasing land and construction of buildings for rental income. Lucknow was reported to have become "a paradise for contractors and retired officials, who come and settle here and build houses".[37]

The marked increase in house rents from the time of first world war gave a further fillip to investment in housing as a lucrative source of return on capital. Between 1914 and 1922 house rents had increased by 100 per cent in Lucknow and by 200 per cent in Kanpur between 1914 and 1923.[38] The UP government as a matter of policy did not introduce rent ceiling regulations. In the opinion of the government, the problem of scarcity of housing with increasing population in the towns would be aggravated by rent ceiling measures, since "landlords will be encouraged to build more houses, if rents are unrestricted, but will assuredly be discouraged if rents are artificially depressed".[39] The Allahabad improvement trust reported in 1935-36 very high returns on capital to owners of completed buildings, constructed for middle class housing or commercial use, on land cleared and improved by the trust.[40] Due to increased house rents, coupled with low rates of house tax[41] banking or commercial groups, district landlords, lawyers and government servants found it worthwhile to invest in private housing schemes and in real-estate development for commercial renting. The magnitude of this phenomenon in Allahabad was noted in the improvement trust annual report of 1936-37:

> The demand for land for construction of houses and shops in the city remains unabated and people are even prepared to advance money on undeveloped lands of the Improvement Trust... The rapidity with which buildings are springing up and multiplying these days in the Municipality and Trust areas is amazing.[42]

The ever increasing use of urban land for building construction in the interwar period immeasurably aggravated the scarcity of vacant sites for the poor to settle on, at the same time as they were evicted from congested areas that were being acquired, cleared and redeveloped by the trusts. The annual report of the Allahabad municipal board commented in 1941-42 that:

> The Improvement Trust and zamindars [urban landlords] have been floating scheme after scheme for the housing of middle class men and whenever these schemes have come into play, the original inhabitants of the place, the poor class people, have been ousted and made to seek new houses in newer surroundings. Thus the poor toss about from place to place and where they go they have to live in an uncongenial atmosphere.[43]

Due to the inadequate compensation they received for the acquisition of their old houses, they could not afford better housing or high rents in the houses constructed in the newly developed residential settlements,[44] and "after an intervening period of considerable discomfort... provde[d] themselves with similar undesirable quarters elsewhere".[45] The poorer sections of the population in the towns therefore had to house themselves in whatever sites and buildings that were available. The Allahabad municipal board reported in 1942 that "on the whole [the] town seems to have very much expanded as far as the houses for the middle class men are concerned", while the poor "have to content themselves with the space and surroundings that may fall to their lot".[46] They crowded into insanitary and congested buildings and neighbourhoods which were yet to become targets of trust schemes, and where the middle classes were unwilling to live, especially because the latter had the option of shifting to newly developed residential areas. The poor also had to fall back on un-reclaimed and insanitary plots inside and on the periphery of the towns, which were not suitable for construction.

As a result of these developments, the pattern of residential settlement and urban social geography from the inter-war period increasingly mirrored class differences in the towns. The Allahabad municipal board annual reports of 1937-38 and 1941-42 gave detailed descriptions of what were called 'poor houses'.[47] These descriptions clearly indicate the way in which the poor had been adversely affected by town planning policies, with the emergence of separate concentrations of 'poor houses'. Large settlements of kuchcha hutments (temporary shanties) of the poor had sprouted in low-lying marshy tracts, undrained ditches and swampy river fronts, which could not be built over. In New Katra in the Beli Road area and in Rajapur, bungalows and cottages had been constructed on the high street-level, while the houses of labourers had come up in the adjacent undrained deep ditches. These areas, according to the municipal reports, were "sadly deprived of sanitary conveniences" and remained waterlogged throughout the monsoon. Labourers, odd job men and hawkers, who needed to live in the central areas of the town near their places of work, housed themselves in the old part of Allahabad in buildings which were insanitary and overcrowded and hence had low rents, as these were deemed unfit for middle class residence. These premises, already over-crowded, became more so, as those who were displaced from their original residences in the course of trust schemes in the central areas were forced to flock to the decreasing number of low-rent houses available in the neighbourhood. Bazar workers, vegetable vendors and hawkers also lived in and around the 'mandi' (wholesale market) areas in hutments with thatched roofs or in temporary shelters, often within the walled compounds of the markets. These mandis were frequently visited by 'animals of load' which were generally tethered for long hours during the unloading period. Here "mandi owners make practically no arrangement for the removal of rubbish or clearing of open spaces. These areas become invariably plague spots specially during the rains and bad seasons."[48] Clearly, the policies of the Allahabad trust contributed to worsening living conditions of the poor, as they were being 'ghettoised' in particular areas. This was in marked contrast to the new housing schemes in reclaimed and developed areas, which provided better and planned residential sites for the middle classes who could afford them.

IV

The situation of housing for the poor was somewhat different in Kanpur, although here too class differences were increasingly reflected in settlement patterns. In Allahabad and Lucknow, the improvement trusts were the focus of interest of various propertied groups seeking to invest in urban land and buildings. In comparison, the trust in Kanpur was dominated by members of the Upper India Chamber of Commerce and the UP Chamber of Commerce, who were the chief employers of labour in the local mills and factories.[49] They therefore had the additional concern of providing housing for the urban workforce in order to ensure an adequate supply of labour. However, the view that the construction of houses for the labouring population was 'unremunerative' dissuaded the trustees from undertaking such projects directly. Instead, the trust decided to open up new areas of land, where houses were to be constructed by private investors and constructors as commercial ventures

In order to attract private investment on housing for the poor, the trust extended generous incentives and concessions to potential builders. First, to encourage private owners of unused land to undertake housing schemes for the poor, the trust exempted the owners from compulsory acquisition of their vacant and unbuilt-up land, provided they devoted such land to build houses for labourers. The trust undertook to develop these plots by providing drainage and sewerage, for which the landowners were to pay 'betterment' charges.[50] 'Betterment' charges being considerably lower than the expected rental returns, landowners willingly accepted the 'betterment' package of the trust. Second, in the new areas developed by the trust such as in Sisamau, plots were sold at concessional prices to prospective builders on the condition that they construct houses for mill workers. Third, in certain cases the trust advanced loans at low rates of interest to building contractors, who undertook to build residences for the poor.[51]

The incentives extended by the trust had the desired effect of stimulating landowners and builders to construct houses or 'ahatas' (complex of small houses in walled compounds) for the labouring population in Kanpur. Between 1920, when the trust was first inaugurated, and 1935, the total number of houses built on trust land, which mainly accommodated the poor, was 8,430, accounting for an estimated 42,000 people.[52] In 1935-36 alone, 2,000 workers' quarters had been built on trust land, which housed 10,000 people.[53] In Kanpur, therefore, unlike in Allahabad or Lucknow, the improvement trust took the initiative to provide land to house the poor. This did not however mean that the poor in Kanpur thus came to enjoy abundant, attractive and cheap housing. Instead, as pointed out by trade union leaders in Kanpur in 1944, "the areas developed by the improvement trust, as far as the labour areas are concerned, quickly degenerated into slums".[54] This was primarily because the trust did not subject the house builders and owners to stringent sanitary regulations or rent ceiling, since these would have discouraged the private investors from providing quarters for the poor. If the trust itself tried to provide housing, being a public body, it would have to avoid over crowding and high rents and arrange for such sanitary facilities as public latrines, water supply, drainage and conservancy services, the cost of which was considered to be prohibitive for the trust. However, in the case of private builders and house-owners, the trust could simply turn a blind eye to such conditions, and in fact acknowledged and anticipated in 1921-22 that houses for the poor built by contractors or landlords "would not pass the test of any public building".[55] The underlying assumption here was that even if new housing had to be created for the working classes, nonetheless they did not need or deserve the standards appropriate for a 'public building', presumably because they were used to and content with substandard housing, in contrast to the middle classes. The perception that the poor were intrinsically prone to filth and squalor could fortify the view that they only desired and were entitled to the minimum of a roof and four walls, and not much more by way of spacious surroundings or sanitary facilities. On paper and in theory, the Kanpur trust of course had to stipulate certain conditions for the builders of private houses of ahatas. Ahata-owners were required to adhere to specific regulations, such as less than a certain specified number of houses per acre were to be built to avoid

overcrowding; houses were to be constructed according to sanctioned plans to ensure adquate space and ventilation; rents were to be charged at rates approved by the trust; and conservancy and water supply facilities were to be provided.[56] However, in practice neither the trust nor the municipal board felt the need to enforce any of these regulations, not only because it would discourage private investment in working class housing, but also because the poor were expected to make do without the requirements of space and sanitation. As a consequence, working class housing emerged as overcrowded "wretched low hovels of one tiny room and verandah, badly built and most insanitary", yet let out at very high rents.[57]

Not surprisingly, the ultimate beneficiaries of trust schemes to provide land for housing the poor in Kanpur turned out to be the house builders, as was evident in the controversial Talaq Mahal Scheme in Kanpur. In Talaq Mahal, 16 acres of land was acquired by the municipal board as a congested insanitary area, evicting the dwellers of kuchcha (temporary) houses. It was then sold to a private contractor, Haji Abdul Ghani, to put up new quarters for the poor, on the agreement with the Kanpur trust that the trust would execute the necessary infrastructure of sewerage and drainage while the owner would provide the land required for the main approach road and pay for its construction and for other 'betterment' expenses. The town improvement trusts committee report in 1924 stated that "the general opinion is that the bargain was a poor one and that the owner is reaping a very large profit".[58] The owner had agreed to abide by the layout for housing quarters prepared by the town planner, H V Lanchester, but the plan subsequently submitted for sanction did not conform to that layout, but had been accepted by the trust nevertheless, as its attitude to private builders was lenient. The area consequently became a congested, insanitary slum.[59] The landowner of Talaq Mahal, as in almost all other cases, reaped large profits by building substandard houses on trust land, with few sanitary facilities, in which he packed large numbers of the poor who were forced to share accommodation due to high rents.

Thus, in Kanpur as elsewhere, the grand venture of town improvement and housing expansion served only to worsen the conditions of housing of the poor and divided the town spatially more and more into areas of the rich or the middle classes and the poor. For the urban professional, administrative and commercial classes, who could afford to rent houses at high rates or purchase land for the construction of houses, the initiatives of the improvement trusts to open up land for housing were welcome developments; but the poorer classes seldom had access to such land. Moreover, land for settlement for the poor became increasingly scarce as their congested or overcrowded neighbourhoods were acquired, redeveloped and sold to those who could afford higher prices. The poor were forced to crowd into undeveloped and insanitary areas. Housing, where made available, as in Kanpur, was insanitary, overcrowded and expensive and devoid of conservancy and other municipal services.

V

While the settlements of the poorer sections of the urban population were gradually being 'ghettoised' in specific areas, these areas tended to be neglected by the municipal authorities in providing basic sanitary and conservancy services. Local policies betrayed a bias in favour of the rate-paying electorate in the allocation of civic services and resources. Board members sought to enhance their support from the propertied electorate by supplying them with ward conservancy and public health facilities, often in excess of basic requirements. Municipal services, such as scavenging, conservancy, road maintenance, water supply and lighting, tended to be concentrated in the residential wards and buildings of the propertied ratepayers. Houses and settlements of the poor were largely overlooked. A survey of houses of mill workers in Kanpur in 1939-40 found that 82 per cent of their houses did not have a paved approach road, and 91 per cent of the roads in the residential neighbourhoods of the poor were without any lighting; 61 per cent of the houses had no public latrines and the average number of people using each municipal latrine in poorer neighbourhoods was as high as 473.[60]

The decline of urban public health and sanitary conditions was one of the main terms of reference of both the Benares and the Lucknow municipal board enquiry committees, which submitted their reports respectively in 1933 and 1942.[61] It is evident from the findings of these committees that the deterioration of sanitary conditions was not simply a product of administrative mismanagement, nor necessarily of a paucity of civic services due to the financial constraints of municipalities. The reports suggested that the cause of public health problems was the uneven allocation of available municipal services, with a disproportionately large part of the funds and resources being directed to the sanitary maintenance and improvement of the residential localities of the municipal electorate. The Lucknow report, for instance, noted that while urgent road maintenance suffered for the stated reason of "stringency of resources", board members had sanctioned funds to locate parks near the houses of those whom they sought to please.[62] The Benares report pointed out that road repairs and paving had been concentrated entirely in the residential areas of influential citizens, being "undertaken according to personal wishes of [board] members".[63] When the poor did benefit from municipal projects, very often this happened incidentally in the course of measures undertaken essentially to benefit municipal functionaries and the electorate. Referring to a storm-water drainage project executed by the Benares municipal board, the enquiry committee report stated that the committee members were initially rather pleased that the "municipal authorities for once conceived a great project for relieving the poor inhabitants of the locality from being inundated with storm water during rains". However, the committee members subsequently discovered on closer inspection that the benefit to the poor was merely a by-product of the advantage accruing to the chairman of the board himself, for "close scrutiny shows that the anxiety [to execute the project] was due to the rushing of storm-water through the compound of the late chairman".[64]

In Kanpur, the disinclination of the local authorities to provide necessary municipal services as water supply or conservancy to the neighbourhoods of the poor is also brought out by the fact that the boards often failed to extend these facilities to some new areas in the outskirts of the towns, developed by the improvement trust, on which the poorer classes had come to settle. The municipal board was responsible for supplying civic services to these new areas. The municipal authorities, however, persistently pleaded their inability to accept responsibility for water supply, conservancy and sanitation facilities, on the ground of financial constraints,[65] although their lack of funds appeared to be most acute when it came specifically to those areas where settlements of the poor had developed on trust land. In Kanpur, the improvement trust had opened up vast areas in Juhi, Sisamay and factory area, which developed as settlements of poorer sections of the population. By the early 1930s, these constituted a larger area of habitation than the entire older portion of the city.[66] From 1920-21, when these areas first began to be developed, the improvement trust in Kanpur had urged the municipal board to extend water connections to "these large workers' settlement",[67] yet 10 years later in 1931-30, the "principal problem" in the areas remained the complete lack of water supply.[68] The Kanpur improvement trust annual reports of the mid-1930s continued to point out the dearth of water supply, conservancy and drainage facilities in these areas.[69] In 1938-39, the local residents were still complaining to the trust of lack of water supply, absence of sewers, public latrines and conservancy, and the consequent health hazards.[70]

Lack of municipal services in the residential areas of the poor appears to have been one of the significant causes of the high incidence of their morbidity and mortality. Between 1921 and 1928, the average mortality rates were 75.29 and 65.96 per thousand of population respectively in the poorer neighbourhoods of mill workers in Gwaltoli and Khalasi Lines in Kanpur. In comparison, during the same period the average was significantly lower – 34.58 per thousand of population – in the planned workers' settlement built by the British India Corporation (BIC) of millowners, which enjoyed relatively better drainage, conservancy and water supplies.[71] The Kanpur labour enquiry committee in 1938 also mentioned that the incidence of sickness among workers living in the BIC's settlements was "substantially lower than among those living outside."[72] This contrast suggests that the cause of high mortality and disease among the poor was not simply their general poverty or malnutrition but also the lack of sanitary facilities for them, with the concentration of a major share of municipal services in the residential areas of propertied rate-payers

VI

The changing nature of local policies in the 1920s and 1930s and the central concern of the authorities to make the towns more sanitary and hygienic not only worsened the housing, health and living conditions of the poor, but in many cases placed serious constraints on their economic activities and sources of livelihood. Drives against encroachment on public land, which were undertaken by the municipal boards to reduce congestion and to improve sanitary conditions, adversely affected many groups of the poor, such as hawkers, vendors, hand-cart pullers and drivers of hackney carriages or bullock carts. The acceleration of anti-encroachment drives, mainly conceived as a sanitary measure, however, had an additional dimension relating to changing municipal fiscal policies in the interwar period. From the 1920s, a much larger number of Indian propertied rate-payers were able to exercise control within municipal institutions, following the significant extension of electoral franchise and further devolution of local power by the British government in 1919.[73] These rate-payers, not surprisingly, attempted to minimise their own burden of local taxation, primarily by reducing the asessment as well as tempering the rigour and effectiveness of collection of such direct taxes as house tax, which were paid by the propertied.[74] Instead, they increasingly took recourse to other sources of revenue,[75] including the licensing of economic activities of hawkers and labourers more vigorously and effectively than ever before; ever more elaborate mechanisms were set up to enforce these regulations and to hunt down defaulters. This frequently took the form of enhanced imposition of fines and penalties for violation of municipal rules; for example, for not procuring municipal licences by carters and porters; for encroachment on public land by cart-drivers parking their carts on roadsides or by hawkers or vendors who set up pavement shops without municipal permits.[76] It is not that the enforcement of licensing regulations and the imposition of fines for violation of municipal rules constituted the chief sources of municipal income. However, in a period when the municipal authorities were concerned to reduce direct taxation and maximise income from all other possible sources, they could ill-brook the evasion of dues and licensing fees by hawkers and carters, and they were also eager to rake in revenue from fines for encroachment on municipal land whenever possible. These fiscal measures, of course, went hand in hand with a discourse of local administration which increasingly and vocally condemned the poor and their activities as defiling and ugly blots on the urban landscapes, which had to be regulated and controlled. One set of figures, indicating the increase in collection of fines by the municipalities between the 1910s and the 1920s, brings out the extent to which the poor were affected by these changing municipal fiscal preferences in the interwar period. In the financial year 1917-18, the income of the Kanpur municipality from fines was Rs 6,603, but by 1927-28 this had increased to Rs 25,237 Corresponding figures for Lucknow were Rs 12,674 and Rs 26,662; for Benares, Rs 6,776 and Rs 20,537; and for Allahabad, Rs 8,725 and Rs 16,206.[77]

Anti-encroachment campaigns thus emerged as one of the chief preoccupations of the local authorities from the 1920s, both as part of the grand plan to reduce insanitary conditions and overcrowding and as a new aspect of municipal fiscal policies The prime targets of anti-encroachment measures were hawkers, vendors, transport pliers and carters, as well as artisans or workmen who worked on the roadsides. "The great insanitary features of roads" that the municipal authorities had specially identified, were "small cabins of such shopkeepers as betel leaf sellers, 'chat' [cooked snacks] sellers, vendors".[78] Similarly, "tradesmen and craftsmen as iron smiths and carpenters" were held responsible for causing insanitary conditions, for "the roadside 'patris' [pavements] are, as a matter of fact, godowns for their shops and working-tables for their workshops." Yet anoher "insanitary feature" sing,ed out included "the parking of hackney carriages and hackney carriage animals". According to the municipal authorities, all of these were special impediments to ensuring sanitation, for they caused "a complete blockage to the movement of pedestrians and much obstruction in cleaning the patris and drains".[79] The view of he municipal authorities was clearly that the hawkers, vendors, carters and workmen were intrinsically insanitary in their habits and practices; they were suspected of wanting to lay out their wares and to set down for work wherever and whenever they could find the opportunity, without being troubled by any high-minded civic spirit to keep the towns tidy and orderly.

One remedy to stamp out such 'insanitary' activities was to enhance the collection of 'tehbazari' dues or ground rent from roadside hawkers and to impose fines for encroachment at exorbitant rates, "which would be out of most pockets, the purpose being to prohibit petty shopkeepers and vendors to occupy roadsides".[80] The usual policy pursued also included the demolition of shops, confiscation and removal of goods or vehicles and animals, and the prosecution and fining of 'offenders'.[81] By the 1930s, such drives against encroachment by petty shopkeepers were stepped up, as many more temporary shops or stalls of hawkers and vendors began to appear with the growth of population and petty trading activities in the towns.[82] There were also attempts to make the system of prosecution more effective. The Kanpur municipal board took recourse to 'moving courts' of city magistrates, who would prosecute and fine the encroachers on the spot. This was designed to ensure that the vendors would not flee from the place of encroachment to evade prosecutions and fines. The municipal authorities expected this measure to exercise a strong deterrent effect against future encroachment elsewhere.[83] In the 1930s, the municipal boards also frequently enlisted the help of the district authorities and the police to enforce measures against encroachment, since the removal of encroachments gradually elicited severe resistance and had "become dangerous and the Demolition Overseers often face[d] great difficulties".[84] Coercion and violence, thus, also increasingly became an integral feature of the experience of displacement and dispossession of the poor.

The implementation of these vigorous anti-encroachment measures, as well as the enforcement of municipal licensing regulations, severely hindered the work and employment of those sections of the poor who were targeted, and often jeopardised their sources of livelihood. In particular, such measures deepened the scarcity of shop space faced by hawkers and vendors. Petty trading activities increased in the towns in the interwar period amongst the poor, either as a permanent source of livelihood or to

supplement income from manual labour, especially during periods of lack of employment. As a result, competition among hawkers and vendors for access to shop space intensified in the central trading districts in the towns. Gaining a foothold in the bazaar areas was the first step to securing business and customers. It was especially difficult for hawkers and vendors to find shop space in these areas. Renting shop space from private building owners at the prevailing high commercial rates was beyond their means. The provision of shop space by the municipal boards was inadequate, as municipal markets were few in number. Besides, the boards frequently leased out shop space through auctions, where petty traders were outbid by richer merchants. Moreover, large municipal markets were usually leased out to contractors, who then let out individual shops or stalls. Rents in such cases tended to be high, as the lessees charged high rates to earn profits after paying off the lease dues to the municipalities. Due to the lack of cheap shop space, vendors and hawkers generally took recourse to setting up temporary shops or stalls on roadsides. However, the zealous anti-encroachment drives of the local authorities in the interwar period rendered this option increasingly difficult and seriously restricted their trading opportunities.

In contrast to the treatment meted out by the municipal authorities to the encroachments of the hawkers, the richer shopkeepers, with permanent shops in buildings in the bazaars, had a far better deal. The latter were also frequently guilty of encroachments on public land through projections of their shops on to the pavements, in the form of 'pucca' or permanent 'chhajjas' (canopies) and 'chabutras' (platforms). However, the municipalities were not inclined to demolish these permanent extensions, on the ground that "they cannot be reclaimed after the superstructure is erected", and because demolition costs would be prohibitive.[85] Besides, such permanent or pucca additions to shops were allowed to stand for the additional reason that the boards could either sell or charge rents on the encroached area of land as a source of municipal revenue.[86] The lenient attitude towards the more affluent shopkeepers, however, arose equally because it was the poorer hawkers who were thought to be primarily responsible for causing insanitary conditions.

The difference in municipal policy towards the encroachments of richer merchants on the one hand and hawkers and vendors on the other in fact tended to bias urban trading activities in the towns in favour of the former, often to the detriment of the latter. Municipal evictions and demolition of encroachments by petty traders in the bazaar areas played into the hands of richer merchants, who were often concerned to reduce the competition from smaller shopkeepers in central commercial areas, since the latter could offer goods at cheaper prices due to the low establishment costs of their temporary shops and stalls. In seeking to keep hawkers away from the central bazaars, the bigger shopkeepers deployed the argument of encroachment and congestion. Controversies in the 1920s and 1930s involving pavement shops and stalls of hawkers at Aminabad in Lucknow and at Collectorganj, Moolganj, Halsey Road and Bansmandi in Kanpur illustrate the growing conflict over shop spaces and trading activities between the hawkers and the more affluent merchants. The obstruction of roads by vendors and hawkers in Aminabad engaged the attention of the Lucknow Municipal Board from 1932, as the "police and merchants kept complaining of nuisance caused by hawkers".[87] The merchants complained that the board did not prevent hawkers from setting up stalls in front of the shops in buildings, which caused "nuisance before the sites of their shops" and "failed to secure ... their right to proper approach".[88] The owners of cloth shops in the Sarfaraj building, for instance, argued that the view and access to their shops were being obstructed by pavement hawkers and hence their clientele was decreasing. After receiving innumerable objections by the owners of a cloth shop in the building, the board cancelled the trading licence of some pavement hawkers.[89] By the late 1930s, the complaints of richer merchants in Aminabad grew even more vocal and the executive officer of the board reported to the Lucknow municipal board enquiry committee that "quite a number of unauthorised shops are being removed almost daily by seizing goods and putting them to auction in case they refuse to pay removal charges".[90]

In the Collectorganj area in Kanpur, wholesale grain merchants were similarly able to enlist the support of the local authorities in expanding their shop space and keeping the bazaar area clear of 'phariyas' or retail grain sellers who set up temporary stalls on the roadsides. In 1921-22, the Dhankutti scheme of the improvement trust was launched to evict the phariyas from the Collectorganj grain market and to relocate them in Dhankutti. The aim was both to relieve congestion in Collectorganj and to accommodate the demand of the arhatiyas (wholesale grain dealers) for more space for their shops and godowns.[91] This attempt met with protests and agitation of the phariyas and the Dhankutti Scheme had to be temporarily shelved. However, the municipal board in 1924, perhaps to facilitate the removal of the phariyas on the failure of the trust to do so, imposed a high licence fee of three rupees on the Collectorganj phariyas, and non-licensed phariyas setting up temporary shops in the area were prosecuted.[92] This appears to have produced the intended result, for the number of licensed phariyas in 1924-25 was 56 but by 1930-31 the number had dwindled to nine.[93] Similarly, in the adjacent bazaar areas of Moolganj, Halsey Road, Couperganj and Bansmandi, the municipal board tried to minimise the number of hawkers through repeated and vigorous clearance drives, thus hindering the access of hawkers to this vital business area. The reasons for such "vigorous clearance" were cited to be the restricted access to shops and godowns of wholesale merchants, and more importantly, the insanitary conditions, congestion and obstruction of traffic caused by the hawkers.[94] However, the ultimate impact of municipal policies was to render petty trading activities in the towns more and more difficult, thus accentuating the problem of sources of livelihood for those sections of the poor who sought employment as hawkers and vendors. Moreover, measures against encroachment and congestion directed towards the carters and porters, as well as the enforcement of licensing regulations for them noted earlier, similarly threatened their economic activities.

VII

In UP the 'problem' of the urban poor emerged most prominently in the interwar years and came to stay. The growth of urban poverty was of course partly a product of such economic forces as the crisis in the agrarian sector and urban migration. However, the analysis in this paper indicates that poverty and dispossession worsened due to the changing preoccupations of local policies. It was not simply that impersonal economic or 'market' forces worked against the poor, but more importantly, the local authorities lent a helping hand. The 'problem' of the poor was created in no small measure by the local authorities, as their vigorous town improvement policies from the interwar period impinged more and more directly and extensively on the economic activities, housing and settlement patterns of the poor. The apparently noble undertaking of the local authorities to make the towns orderly and free of filth and disease aggravated homelessness and overcrowding for the poor, just as similar ventures to keep the bazaars clean and sanitary served only to heighten poverty and unemployment amongst hawkers and labourers. This is not only because the poor were the direct targets of local policies, but also because local administration reflected the interests of the propertied and biased policies in their favour. Equally important, the notion that the poor constituted the main 'problem' which impeded orderly

urban development was elaborated and gained increasing orthodoxy in local administration and in policy discourse from the interwar period. The deteriorating living conditions of the poor, caused partly by local policies, reinforced the worst images of the poor as undesirable and squalor-ridden in the minds of the propertied classes. This prompted further and more concerted and coercive initiatives to deal with the 'problem' of the poor, and the cycle perpetuated as a self-fulfilling prophecy with long-term consequences in framing developmental policies.

The political outcome has been no less significant. The interwar period saw growing political unrest and disturbances in the towns. On the one hand, there were growing protests and resistance by various groups of the poor against local policies, eliciting even more determined and resolute initiatives by the local authorities, more and more frequently with the help of the police to enforce municipal measures. This in turn precipitated confrontations, often violent, between the police and the poor, and increasingly reinforced the reputation of the poor as lawless and disorderly, in addition to being filthy and undesirable On the other hand, competition and conflict intensified amongst the poor themselves for scarce housing and economic opportunities, and clashes ensued, often feeding into communal riots, thus further reinforcing the violent and criminal image of the poor. Indeed, the force and coercion that accompanied the implementation of local policies, as well as the tension and conflict generated by them, constituted a crucial dimension of the context for growing violence in urban north India from the interwar period onwards. The political impact of local policies and their implications for urban violence are, however, not the main concern of this paper. Instead, this paper has sought to highlight that poverty, dispossession and ill-health were aggravated, and urban class differences sharpened, not simply by economic forces nor by strictly economic measures, but equally by the policies and discourse of local administration relating to sanitary and urban improvement. In addition, the identification of the poor as the chief perpetrators of urban overcrowding and worsening health conditions came to form one of the central guiding principles of local policies.

Notes

1 *Census of India, 1931*, Volume XVIII, Part I Report (Allahabad, 1933), pp 127-28, 141-42. The large towns witnessed very significant demographic expansion due to in-migration in the 1920s and 1930s. Thus, in Kanpur, out of a total population of 2,19,189 in 1931, nearly 40,953 had migrated to the town between 1921 and 1931; in Lucknow, the population in 1931 was 2,51,097 and 32,956 migrated to the town between 1921 and 1931, in Allahabad, 16,670 migrated in this period, when the total population reached 1,73,895; in Benares, out of 2,01,137 people in 1931, 14,486 came between 1921 and 1931.

2 Those who qualified as municipal electors included payers of municipal direct taxes, payers of income tax, owners and occupiers of houses or buildings over a specified value, landowners paying or assessed for land revenue over a specified minimum amount, tenants paying rents over a specified sum and university graduates See *The United Provinces Municipalities Act, 1916* (Act No II of 1916), chapter II, section 14 'Qualification of electors' These franchise regulations qualified only a small propertied section of the urban population to vote in local elections. For instance, in Kanpur, out of a total population of 2,16,436 enumerated in the 1921 census, only 19,395 people, or 8 per cent of the population, formed the electorate of local councils in 1923 Kanpur Municipal Board [hereafter KMB] *Annual Report*, 1922-23, p 3

3 For instance, V T Oldenburg, *The Making of Colonial Lucknow, 1856-1877*, Princeton, 1984, M Harrison, *Public Health in British India: Anglo-Indian Preventive Medicine, 1859-1914*, Cambridge, 1994, D Arnold, *Colonising the Body State Medicine and Epidemic Disease in Nineteenth Century India*, Delhi, 1993; J B Harrison, 'Allahabad A Sanitary History' in K Ballhatchet and J Harrison (eds), *The City in South Asia Pre-modern and Modern*, London, 1980, pp 166-95

4 For instance, D Arnold, 'Touching the Body Perspectives on the Indian Plague' in R Guha (ed), *Subaltern Studies V*, Delhi, 1987, pp 55-90, D Arnold, 'Cholera and Colonialism in British India', *Past and Present*, Vol 113, 1986, pp 118-51, I Klein, 'Plague Policy and Popular Unrest in British India', *Modern Asian Studies*, Vol 22, No 4, 1988, pp 723-55.

5 The plague riot in Kanpur is discussed in C Joshi, 'Bonds of Community, Ties of Religion Kanpur Textile Workers in the Early Twentieth Century', *Indian Economic and Social History Review*, Vol 22, No 3, 1985, pp 265-68.

6 The gradual abandonment of draconian plague measures all over India by the end of the 1890s is discussed in D Arnold, 'Touching the Body. Perspectives on the Indian Plauge', pp 50-90; I Klein, 'Plague Policy and Popular Unrest in British India', pp 723-55

7 Oldenburg discusses vigorous measures of sanitary improvement in Lucknow in the later 19th century, but her account shows that these measures were limited to particular areas They were specifically and mainly directed to make the town safe and healthy for the British civil and military personnel and were therefore not extensive in their territorial scope Moreover, there does not seem to be much evidence of any particular concern about the poor; instead the Indian population of Lucknow in general was considered to be insanitary. V T Oldenburg, *Making of Colonial Lucknow*, Chapter 4

8 Note by Awadh Behari Lal, land valuation officer of the Kanpur Improvement Trust (undated), Kanpur Improvement Trust (hereafter KIT), File No 1 (IT).

9 Report of the Town Improvement Trusts (S H Fremantle) Committee 1924, Allahabad, 1924, pp 4-5.

10 H V Lanchester, *The Art of Town Planning*, London, 1925, pp 201-02.

11 'Report of the Town Improvement Trusts (H J Crosthwaite) Committee, 1929', Allahabad, 1929, p 11.

12 Ibid, p 13

13 'Report of the Town Improvement Trusts (J F Sale) Committee, 1935', Lucknow, 1936, p 41.

14 'Allahabad Municipal Board (hereafter AMB) Annual Report, 1941-42', pp 34, 36.

15 Note (No 834, dated August 2, 1920) addressed to the chairman, Improvement Trust, from the land valuation officer, KIT File No 23(IT), Khalasi Lines Scheme (No III A).

16 Cited in a letter to the chairman, Improvement Trust, dated April 19, 1932, signed by the residents of Khalasi Lines Ibid.

17 Letter (undated) from Williamson, director, Begg, Sutherland and Co to chairman, Improvement Trust. (Date of receipt of letter at the improvement trust, February 12, 1932). Ibid.

18 Note on Khalasi Lines by the acting chairman, Improvement Trust, dated November 28, 1928 Ibid

19 Cited in note (No 834, dated 2.8 20) addressed to the chairman, improvement trust by the land valuation officer Ibid.

20 'Khalasi Lines Quarters' - note by chairman, Improvement Trust (undated) Ibid.

21 'Report of the Town Improvement Trusts (Fremantle) Committee, 1924', p 11

22 'Report of the Town Improvement Trusts (Sale) Committee, 1935', p 9.

23 'Report of the Town Improvement Trusts (Crosthwaite) Committee', 1929, p 11.

24 'Lucknow Improvement Trust (hereafter LIT) Annual Report, 1922', p 1.

25 'Report of the Town Improvement Trust (Fremantle) Committee, 1924', p 12 'Report of the Town Improvement Trusts (Crosthwaite) Committee, 1929', p 40.

26 'Report of the Town Improvement Trusts (Crosthwaite) Committee, 1929', p 40.

27 Statement of objections to Scheme No XVIII, KIT File No 104/IT, Part (1926). Nachghar Birhana Scheme (No XVIII).

28 AMB Annual Report 1937-38, pp 38, 42.

29 LIT Annual Report, 1942, pp 22-3.

30 KIT Annual Report, 1921-22, p 5.

31 Report of the Town Improvement Trusts (Crosthwaite) Committee, 1929, pp 11-12.

32 KIT Annual Report, 1921-22, pp 6-7

33 Report of the Town Improvement Trusts (Sale) Committee, 1935, p 5.

34 'Report of the United Provinces Provincial Banking Enquiry Committee 1929-30', Allahabad, 1930, Volume I, p 48 'Memorandum on the indigenous banking system of the United Provinces', by Mohan Lal Sah This has also been mentioned in C A Bayly, *The Local Roots of Indian Politics: Allahabad, 1880-1920*, Oxford, 1975, pp 229-31.

35 Ibid

36 Chairman of the Allahabad Improvement Trust to the secretary, municipal department, government of UP Letter dated April 4, 1938. Allahabad Improvement Trust (hereafter AIT)

File No 17/19, Department III, Sultanpur Bhava Scheme. At a later stage in 1936-37, the 'AIT Annual Report' stated that rural zamindars had been investing in urban land and were "still on the look out for an opportunity to exchange their village land with house property in the city"

37 'Report of the Lucknow Municipal Board Enquiry Committee 1942', Allahabad, 1942, Chapter III

38 Secretary, Lucknow Improvement Trust to secretary, municipal department, UP (through commissioner, Lucknow division). Letter No 401/7118, dated September 18, 1922; district magistrate, Kanpur to commissioner, Allahabad division, letter no 1674, dated February 5, 1923 File No 90/1922, Box No 124, municipal department, government of UP, UP State Archives, Lucknow.

39 Note by G B F Muir, secretary to the government of UP, dated May 4, 1923 Ibid

40 AIT Annual Report 1935-36, p 6 Between 1922 and 1926, the maximum increase in house rents was for middle class residential accommodation, according to an Allahabad civic survey cited in the Annual Report of Allahabad Improvement Trust 1936-37

41 In the 1930s, the rate of assessment of house tax in Kanpur was only 3 25 per cent of the annual rental value of a property, in Benares it was 4.5 per cent (cited in the Report of the Lucknow Municipal Board Enquiry Committee, 1942, chapter II), in Lucknow, 2 5 per cent (Rules, Regulations and Byelaws, etc, relating to the Lucknow Municipality, corrected up to February 20, 1933, Lucknow, 1933, p 188), and in Allahabad, 4.16 per cent (Rules, Regulations and Byelaws, etc, relating to the Allahabad Municipality, corrected up to May 31, 1936, Allahabad, 1936, p 41)

42 AIT Annual Report, 1936-37

43 AMB Annual Report, 1941-42, p 34

44 'Report of the Town Improvement Trusts (Crosthwaite) Committee', 1929, pp 11-12, 'Report of the Town Improvement Trusts (Sale) Committee', 1935, p 9

45 Report of the Town Improvement Trusts (Crosthwaite) Committee, 1929, p 11.

46 AMB Annual Report, 1941-42, p 34

47 Ibid, 1937-38, pp 38-42, 1941-42, pp 34-36

48 Ibid, 1941-42, pp 34-36

49 The composition of the Kanpur Improvement Trust is discussed in Notes and Orders, dated 19 2 41, File No 30IT/1935, Box No 27, Public Health Department, Government of UP, UP State Archives, Lucknow.

50 Report of the Town Improvement Trusts (Fremantle) Committee, 1924, p 20

51 Ibid, pp 25-26

52 KIT Annual Report, 1934-35, p 13

53 Ibid, 1935-36, p 11

54 Recommendations of the Kanpur Improvement (Edward Souter) Committee 1944, Volume II Comments on the recommendations of the committee, pp 39-41. Serial No K, Letter from Arjun Arora and Suraj Prasad Awasthi, secretaries of the Provincial Trade Union Congress, dated November 20, 1944

55 KIT Annual Report, 1921-22, pp 6-7.

56 Report of the Town Improvement Trusts (Fremantle) Committee, 1924, p 20

57 Ibid, pp 25-6.

58 Ibid, p 22

59 KIT Annual Report, 1926-27, Note from chief engineer, Kanpur Improvement Trust, to chairman, dated April 28, 1926. KIT, File No 94, Part II (IT) Talaq Mahal Scheme No X.

60 Preliminary draft of the pro forma report on the enquiry into family budgets and housing conditions of the mill workers at Cawnpore, 1939-40, prepared by the Bureau of Economic Intelligence, UP. Manuscript held at the Record Room of the Northern India Employers' Association, Kanpur, pp 11, 13

61 Report of the Benares Municipal Board Enquiry Committee, 1933, Allahabad; Report of the Lucknow Municipal Board Enquiry Committee, 1942

62 Report of the Lucknow Municipal Board Enquiry Committee, 1942, Chapter XII.

63 Report of the Benares Municipal Board Enquiry Committee, 1933, p 21

64 Ibid, p 49.

65 Report of the Town Improvement Trusts (Sale) Committee, 1935, pp 7-8

66 KIT Annual Report 1930-31, p 7.

67 Ibid, 1921-22, p 9

68 Ibid, 1930-31, p 7.

69 Ibid, 1933-34, pp 9, 14; 1934-35, pp 13-14.

70 KIT, File No 82A(IT) Part, Southern City Extension Scheme, File No 81A (1938-39) Factory Area Scheme No I

71 Royal Commission on Labour in India, London, 1931, Volume III, Part I (written evidence), p 153. Evidence of the government of the United Provinces

72 Report of the Cawnpore Labour Inquiry (Babu Rajendra Prasad) Committee, Allahabad, 1938, p 79

73 As a result of the extension of franchise, in Kanpur, for instance, in 1923, the number of registered voters increased by 300 per cent over the previous voter list. However, this still only enfranchised a small propertied section out of a total population of 2,16,436 enumerated in the 1921 census, only 19,395 people or 8 per cent of the population formed the electorate of local councils in 1923 KMB Annual Report, 1922-23, p 3

74 Hugh Tinker, *The Foundations of Local Self-government in India, Pakistan and Burma*, London, 1954, pp 164, 317, 322

75 Ibid, p 317 The declining importance of direct taxes and the preponderance of indirect taxes in UP municipalities is well documented in Note, dated November 2, 1939, File No 243/1939, Box No 213 Municipal Department, government of UP, UP State Archives, Lucknow.

76 Benares Municipal Board (hereafter BMB) Annual Reports, 1928-29, p 8; 1934-35, p 13; 1935-36, p 14 LIT Annual Report, 1929, pp 21-22. KMB, Annual Reports, 1938-39, pp 16-17, 141-42, pp 13-14. District magistrate, Kanpur to chairman, Kanpur Municipal Board, letter no 1266, dated December 9, 1938 File No 1-35, 1938, Department XXIII, Municipal. Kanpur Collectorate, English Record Room. Note from district magistrate, Kanpur to city magistrates, dated June 10, 1937, file (not numbered) on miscellaneous correspondences of the district magistrate, 1937-38, Kanpur collectorate, English Record Room.

77 Figures taken from the Annual Reports on Municipal Administration and Finances in UP, 1917-18 and 1927-28 Statement II, showing the income of the municipalities from different sources

78 AMB Annual Report, 1940-41, p 31.

79 Ibid.

80 Ibid.

81 Note from the district magistrate, Kanpur to city magistrates, June 10, 1937. File (not numbered) on miscellaneous correspondences of the district magistrate, 1937-38 Kanpur collectorate, English Record Room.

82 Vigorous and intensified anti-encroachment drives mentioned in ibid; district magistrate, Kanpur to chairman, Kanpur Municipal Board, Letter No 1266, dated December 9, 1938. File No 1-35/1938, Department XXIII, Municipal Kanpur Collectorate, English Record Room; BMB Annual Reports, 1928-29, p 8; 1934-35, p 13; 1935-36, p 14, LIT Annual Report, 1929, pp 21-2, KMB Annual Report For the year ending March 31, 1939, pp 16-17

83 KMB Annual Reports for the year ending March 31, 1939, pp 16-17, for the year ending March 31, 1942, pp 13-14

84 Chairman, municipal board to the district magistrate, Kanpur, Letter No 2415/E, dated November 19, 1938; district Magistrate, Kanpur to chairman, Kanpur Municipal Board Letter No 1266, dated December 9, 1938 File No 1-35/1938, Department XXIII, Municipal Kanpur Collectorate, English Record Room

85 Report of the Lucknow Municipal Board Enquiry Committee, 1942, Chapter V

86 Report of the Benares Municipal Board Enquiry Committee, 1933, p 116

87 Report of the Lucknow Municipal Board Enquiry Committee, 1942, Chapter V

88 Ibid

89 Ibid

90 Ibid

91 Chairman, municipal board to the district magistrate, Kanpur. Letter dated 25 10.22, KIT File No 92A (IT), Dhankutti Scheme, chairman, municipal board to collector, Kanpur, Letter no 1549, dated 25 10.22; district magistrate, Kanpur to commissioner, Allahabad Division, Letter No 395, dated November 7, 1922. File (not numbered) on the district magistrate's correspondences regarding the Improvement Trust, 1921-22. Kanpur Collectorate, ERR.

92 Cited in KMB Proceedings, June 17, 1931.

93 Ibid.

94 KMB Annual Report, For the year ending March 31, 1926, p 15; KMB Proceedings, July 19, 1926, April 20, 1927, June 17, 1931.

Political Parties, Development Policies and Pragmatism in a Changing World

Lessons from Vietnam

M S Shivakumar

In recent years, Vietnam has recorded remarkably high growth rates whilst ensuring equity and national predominance by adopting policies that in some ways balanced the role of the Communist Party, state and private sectors. Reforms, in general, were undertaken keeping socialist principles and institutions intact. This paper attempts to provide an overview of the most important political developments in Vietnam since 1986, and examines the role of the party in shaping the perspectives of the state and the private sectors that guarantees social and economic equities. For this analysis, the 8th national party congress, held in June 1996, in Hanoi, is considered as a point of reference. It concludes that the party's hold on the population remains strong, and the current changes in Vietnam will help Hanoi defend its sovereignty, not only economically, but also culturally and politically. It seems possible that Vietnam will develop in tandem with China but with a lesser role for the party in state affairs.

THE crisis in world socialism in the second half of the 1980s had very different results in Asia and Europe.[1] All of the eastern European governments fell or were recreated, and neither they nor their successor regimes were able to generate satisfactory economic growth through market reforms. If these states are at all to succeed economically, it will only be after a long period of severe crisis. In contrast, the communist states of Asia, mainly China and Vietnam, succeeded amazingly well with their economic reforms. They introduced a strategy which is now generally called a 'popular capitalist movement', with the emphasis on significant growth in agriculture, internal and external trade, and higher investment in industry. At the same time, the communist parties have retained their political monopoly. The great paradox of the communist upheaval, of the late 1980s and early 1990s, is that the transition to popular capitalism was by far the most successful in countries where the communist regimes survived. Some issues which affected both east European and Asian socialist economies were how they should deal with the, formerly, public sector units and their reorganisation, what reforms should be pursued to maintain a balance between the political processes and the development of a private sector, and how these changes would affect the poor and other vulnerable groups? In Asia, four communist regimes, China, Laos, Vietnam and North Korea, survived the turbulent 1980s. In terms of economic reform, as of the mid-1990s, both China and Vietnam are well ahead of the other two nations. While China's political and restructuring processes are better studied, Vietnam remains a fertile area for researchers and political analysts.[2]

Vietnam has been carrying out an ambitious adjustment and reform programme ('Doi Moi') since 1989 and is making a steady transition to a market economy. The country has achieved notable success with its reforms and initial structural change included the de-collectivisation of agriculture, price liberalisation, unification and devaluation of the exchange rate, and hardening of budget constraints for state enterprises. It also sought to reduce the fiscal deficit and eliminate subsidies. The impact has been particularly evident in the agricultural sector, where the country has been transformed very quickly from a rice importer to a major rice exporter. The role of private trade and production in agriculture has increased to more than offset the contraction of the state sector. Overall, Vietnam's transition experience stands out from other formerly command economies, as well as countries undergoing radical structural adjustment programmes. Firstly, the emphasised importance of agriculture, rather than industry, has helped most Vietnamese households to adapt themselves with less difficulty to changing conditions. Secondly, the quick pace of absorption of retrenched workers from state-owned enterprises into agriculture and growing private sector, particularly in the services segment was invaluable. And lastly, the continued provision of social services has made the transition easier for families. As a result of these factors, the social costs of adjustment in Vietnam have been milder than experienced elsewhere. Whilst the initial phase of reforms boosted the party position, the impact of these changes began to emerge, and by late 1993 it became obvious that not all of the changes were beneficial. The arrival of foreign capital also began to create new problems and put even more pressure on the leadership to pick up the pace of reform, particularly with regard to workers, wages and social subsidies.

After some years of trumpeting its potential to prospective investors and the donor community, in 1995 Vietnam found itself in the more uncomfortable role of having to live up to its promises. At least in the near future, Vietnam looks unlikely to face serious problems in repaying its overseas debts, as foreign capital is still arriving into the country in significant amounts. By the end of September 1996, the government had approved 3.6 billion dollars in new foreign investment projects, as compared with 5.43 billion dollars in the same period last year. The majority of investment so far has come from, respectively, Taiwan, South Korea, Singapore, Japan, Hong Kong and Thailand, underscoring the regional strength in investment. But this has not been sufficient to encourage investors to commit more funds.

Considering the above, the Eighth National Party Congress of the Communist Party of Vietnam (CPV) on June 28-July 1, 1996, received much global attention from political leaders, the business community, scholars and lay citizens as well. What unique characteristics allow the continued monopoly of the party over government and administration in Vietnam? What is the contribution of the party towards socio-economic progress, and how is this being realised? How do the party cadre react to changes in the state processes? Further, some leaders felt that the party was moving away from its rural base and recommend a rethink on the development strategies being pursued. The party congress also received much attention, for the most part for obvious reasons, reflecting anxiety which prevailed among foreign investors. This paper attempts to provide some response, as part of the debate, to such questions which persist, through an overview of the most important political developments in Vietnam since 1986. It also aims to provide a summary of the discussions and outcome of the Eighth National Party Congress, within the broader

context of the political economy of that nation.

BACKGROUND

The origins of the Communist Party of Vietnam can be traced back to a meeting of a small group of radicals at a gathering, in February 1930, in Hong Kong's Kowloon and this event was known as 'Conference for Foundation of the Party'. Ho Chi Minh presided over this gathering in which the three communist organisations of Vietnam merged to form one political unit, i e, the CPV. The CPV's platform, strategy and statutes were also adopted. In October of that year, the interim central committee plenum adopted the party's political manifesto, changing its name to the Communist Party of Indochina.

The political stage was crowded until liberation. Prior to 1945 some parties established themselves but they were unable to develop. Legendary revolutionary movements like Can Vuong and Yen The burst onto the political scene, but disappeared quickly, despite their stated goal to expel the French Local groups, often propped up by foreign aid, such as the Vietnam National Party and the Vietnam Revolutionary Party, never met the demands of the rural poor, and betrayed time and again their willingness to bargain away the nation's best interests in favour of the rich and powerful. 'Uncle' Ho's party, however, made in-roads in the rural areas and consolidated itself as a strong people's movement. It led Vietnam to gain independence in 1945, expelled the French in 1954, and the Americans in 1975. At each stage of its struggle the National Party Congress, as we will see later in this piece, assumed significance.

The first national party congress was held in March 1935 in Macao, at which 13 delegations, representing 1,597 party members within and outside Vietnam, took part. The second national party congress was held in Tuyen Quang Province, Vietnam, in February 1951, with 211 delegates representing 7,61,000 party members in attendance Between 1935 and 1951 the party promulgated an intense political movement under a broad banner, the 'Popular Anti-Imperialist Front' (later renamed as Popular Democratic Front). During this period, members of the party were active with their socialist counterparts all over the globe. At the second congress the party was recast, and the Workers' Party of Vietnam (inheriting the traditions of the CPV and Communist Party of Indochina) was established. The key task of this new party was to defeat French colonialism in Vietnam. By the time the third national party congress was held, in September 1960, in Hanoi, the Viet Minh had established their principles and purposes. In his opening speech to the 576 delegates representing nearly 5,50,000 members at the Congress, Ho Chi Minh declared: "This Congress is the Congress of building socialism in the north and struggling for peaceful reunification of the country...".

What happened since the third national party congress is now part of history. Any assessment of why the US found it so difficult to cope with the special circumstances of Vietnam, and the role of national institutions are subjects of special interest (refer to this writer's earlier pieces in *EPW*: July 22, 1995; December 16, 1995; January 6, 1996). The fourth national party congress held in December 1976 in Hanoi attended by 1,008 delegates representing 1.5 million members, was euphoric It marked Vietnam's victory over the west and its allies, mainly the forces of the US, and the reunification of the South and North into one nation. The party's name was changed from Worker's Party of Vietnam to the Communist Party of Vietnam. However, the elation was short-lived. In the words of Nong Duc Man, currently a politburo member and parliament's speaker: "Till 1980, the Party was delighted with its success over the world's three superpowers, i e, France, Japan and the US. Its main goal then was to deal with China, who saw 'threats from Vietnam' all the time This resulted in a brief war between China and Vietnam in 1979. During this period, the economy was obviously neglected and this led to shortages in essential commodities. People started asking 'does socialism allow us to starve and die'? The end of rationing was necessary to change the lives of the people. At that stage we began to rethink."

The party realised its mistakes and tacitly acknowledged this in the documents presented at the fifth national party congress held in 1982 in Hanoi with 1,033 delegates representing more than 1.7 million members taking part stating that: "During the years in the past, in certain aspects, mistakes and errors in management, made by the Party and the government, have served as the main cause of, or have deepened, the difficult situation in society and the economy. We need to refocus on social and economic management." This congress charted the directions, tasks and main targets in the socio-economic fields of the nation for the 1982-1986 period. However, a continuing trade embargo and economic blockade, imposed by the west and other nations in the region, the tough stance of China against Vietnam in every sphere, and Vietnam's virtual isolation in the international arena, specifically attributed to its invasion of neighbouring Cambodia, hampered socio-economic progress. Only the Soviet-Vietnamese relationship[3] sustained Vietnam throughout that turbulent and difficult period. Nguyen Xuan Oanh, veteran economist, offers the following explanation as to the difficulties faced by Vietnam since 1976:

> The 1954 partitioning of Vietnam resulted in two contrasting economic systems which did not make any progress between 1976-81. The socialist system of the North was characterised by the collectivisation of agriculture [enforced in 1956], and an attempt to build an industrial base and infrastructure based on a classic socialist model. On the contrary, the economy of the South was patterned on a market model but was heavily dependent on external grants and aid. Some changes introduced after the reunification in 1975 were ineffective. Although the need for alleviating the shortcomings of the existing economic management had been repeatedly pointed out, the reform was continuously delayed due to the lack of consensus over what course should be taken.

For example, a contract system was first introduced in the agricultural sector in 1979, essentially consisting of contracting an output quota with individual farmers; instead of the whole co-operative However, the new waves of price increases totally destroyed the effectiveness of the contract system. The arbitrarily determined prices of state supplies at all levels, trailing by far free market prices, naturally bred a system of siphoning of essential commodities, and factors of production, to the free market. The price gap was open to exploitation by all speculators. The inevitable consequence of this was that far less essential goods were delivered to the farmers, who were, however, required to pay for the inputs anyway, the payment of which had been previously incorporated into their production quota. As a consequence, their income was considerably reduced, and paddy production was not substantial. The growth rate of paddy production went down, from 5.7 per cent in 1981 to 1.3 per cent in 1985, and a food crisis appeared imminent. It became obvious that Vietnam suffered from acute macro-economic problems, manifested conspicuously in triple digit inflation, difficulties in debt servicing, an alarmingly poor economic performance and the deterioration of living standards. Ten years (1975-1985) of disappointing economic performance persuaded the party, at its sixth national party congress, in 1986, to propose vigorous reforms.

PROGRESS SINCE 1986

The sixth national party congress, held in December 1986 (1,229 members representing more than two million members turning out) was severely critical of the "bureaucratically centralised management of the command economy based on state subsidies ...". The politburo excluded three powerful veterans and elected a lesser-known reformer, Nguyen Van Linh, as the new

party secretary. The main goal for the new leadership constituted in 1986 was to achieve economic growth, the result of which would determine policies in almost every domain, political ideology, social policy, foreign policy, etc. To encourage economic growth it was not enough to simply dismantle 'socialist structures' like agricultural collectives, reduce defence expenditure or let the market loose. It was necessary to obtain foreign resources, through investments and loans, to support the expansion of infrastructure and industry.

To alleviate the difficult conditions, the party introduced, in 1986, a new concept, 'Doi Moi'. This renovation strategy included the following features by which to redirect the economy towards market-oriented policies: the decollectivisation of agriculture and the return to family-based farming, the devaluation and unification of exchange rates; significant rationalisation of the public sector, including state-owned enterprises (SOEs); the maintenance of highly positive interest rates; a significant reduction in subsidies and the state budget deficit, and a more open door policy with the outside world. Vietnam promoted foreign trade, direct foreign investment and development co-operation Briefly, Doi Moi had two major objectives. Firstly, investment priority should change from heavy industry, which was once the symbol of socialistic industrialisation, to industries more linked to daily life and consumption, or those sectors in which Vietnam enjoyed relative advantage, in agriculture and light industries with export-orientation. This shift in priority was to be accompanied by a drastic change in existing macro-economic management. Secondly, to develop and nurture sources of development assistance and investment, i e, to extend economic relations with the west and others, without restricting this to the Soviet Union, which had previously been the case. Nevertheless, the changes did not take place immediately.

The situation continued to deteriorate between 1986 and 1989, and the reforms, under Doi Moi, stood little chance of success, the reasons being varied. The economy of Vietnam was fragile on the one hand, having freshly recovered from a prolonged 40-year national struggle for independence, and on the other hand Vietnam was still unfamiliar with the interplay of market forces, having been barely initiated into the workings of market mechanisms. In addition, instead of receiving massive financial and monetary support from foreign sources, both in the form of standby arrangements from international agencies, or long-term credit with easy terms of repayment, Vietnam was virtually isolated in its concentrated efforts for economic rehabilitation and stabilisation. It was only in 1989 that Vietnam introduced its comprehensive programme of adjustment and reform. Furthermore, the drastic changes in Russo-Vietnamese relations since 1989 exerted a considerable influence on the Vietnamese economy. Overall, progress made was insignificant and the situation continued to deteriorate, at least in the short run.

This difficult phase was preceded by the introduction of a new investment law, in 1987, the contents of which were somewhat in conflict with the socialist constitution, requiring a foreign policy that could normalise Vietnam's relations with China, Japan, all of its south-east Asian neighbours, as well as obtaining some positive signs from the US as to the ending of its embargo Apart from the new investment law, in 1988 the currency was made fully convertible (first socialist nation to do so), and interestingly succeeded in avoiding hyper-inflation. Some analysts explain that many families put their hidden capital into circulation. Furthermore, subsequent growth in internal trade and the 'cross border' exchange of goods and services with Thailand and an increase in rice exports brought widespread satisfaction and enthusiasm. This strengthened the Party's resolve and it took more bold measures, such as in March 1989, when the state began to dismantle the system of fixed prices.

The mid-term review committee of the party, which met in mid-1989 to examine the progress made under Doi Moi, was challenged with many practical and strategic issues while struggling to maintain political control of the process of economic change. The collapse of the Soviet Union and the eastern allies led to a desire for more ideological strengthening in Vietnam, while facing new difficulties in its economy, brought about by the new Russo-Vietnamese relationship.

The year 1991 was a decisive year for Vietnam. The breakup of the Soviet Union, the ending of economic aid from Russia, and the failure of an attempt to normalise relations with the US, must have been traumatic for the party leadership. Vietnam made huge concessions on the thorny Cambodian issue, completely withdrawing its forces in late 1989, and accepting a comprehensive UN plan which allowed for the legitimisation of a devoutly anti-Vietnam Khmer Rouge and their inclusion in the 'normal political scene' in Cambodia. Relations with China were normalised in late 1991.

When the 1,176 delegates representing 2.2 million members assembled in June 1991 for the seventh national party congress, the key message to the leaders was obvious, to continue the reforms and implement political strategies which would support economic growth. Doctrinaire leaders as well as the most avid reformers lost power, and the new politburo became a compromise-seeking body, where a China-oriented, conservative 'security block', represented by General Le Duc Anh (president from September 1992), opposed a 'reform faction', led by the prime minister, Vo Van Kiet. This 'security block' is prominent in the army, police and the party bureaucracy, while the 'reformers' seem to command the new economic institutions, the civilian ministries and the majority of the national assembly.

External assistance, however meagre, was delivered to Vietnam from 1990 onwards, as the World Bank and International Monetary Fund (IMF) followed up on their earlier discussions. That year, the European Union, USAID, and the World Bank also provided some support. In 1992, Japan, Australia and other nations such as Sweden, the Netherlands and Belgium, resumed their full aid programmes to Vietnam, and after Bill Clinton assumed the leadership in the US, the severity of the US embargo was gradually reduced. In fact, the US further normalised relations by reopening its embassy in August 1995 in Vietnam. The entry of Vietnam into ASEAN also had some effect on the party. In July 1992, Vietnam formally signed the Bali Treaty to become a member of the ASEAN group and gained full membership status in July 1995. Thus, a 'full cycle' of change in foreign relations and diplomacy was pursued, which helped Vietnam to access external resources which began to arrive by late 1987 and gained momentum in 1994. In sum, financial support was made available only after Vietnam introduced a comprehensive set of reforms, and made amendments to its foreign policy. Even then the assistance was not sufficient to overcome growing difficulties.

Between 1986 and 1995, traders and merchants contributed differently to the economic growth. The old Vietnamese trade routes were re-established, e g, the Chinese merchant cities like Hong Kong and Singapore emerged as main points of contact. Further investment in the growing Vietnamese economy came mainly from the east and south-east Asian nations, with Taiwan, South Korea and Thailand maintaining the lead. The US embargo in a sense protected Vietnam from too powerful an influx of foreign capital, and thus allowed the development of a localised and rudimentary, but very lively, private sector.

Armed with the mandate of Doi Moi, and additional support from the party, the new leadership adopted a new constitution in April 1992 'approving' all of the economic laws that were in conflict with the socialist principles of the party. Simultaneously, elections in July 1992 to the 9th national assembly were organised. For the west, this election was seen to be 'undemocratic', as it allowed no opposition, and each

constituency selected a candidate through an elaborate screening process. However, one has to admit to the fact that the members of the national assembly were younger and better trained than those of the previous one. The new assembly continued the process started by its predecessor, moving towards more genuine debate, and voting on government proposals.

The party's commitment to Doi Moi was also well reflected in the 1992 constitution, and the legislation which was adopted later. The new constitution recognisd the rights of SOEs, co-operatives and individuals to engage in economic activities, invest capital and to own and transfer property. It also provided guarantees against the nationalisation of private property. The mid-term national conference of Vietnam's communist party, held in January 1994, reaffirmed the strategy of Doi Moi. The reform of public administration and SOEs featured prominently on the party's/government agenda. It also committed itself to strengthening the legal and institutional framework for private investment. At the same time, there was, and is, growing concern within the party and the government about the potentially adverse social impacts of the reform process. Increased emphasis is expected to be given to social development, with a continuing pledge to fight against mounting corruption, smuggling, waste and other social problems.

Popular movements, in any communist nation, are based on the support of the poor, especially the working class. Workers from SOEs form a large portion of the party membership. Since 1989-90, the SOE sector in Vietnam has undergone important reforms, which have increased the autonomy of the market and imposed hard budget constraints on the state. The first stage of reforms addressed the size and composition of the state enterprise sector. The SOEs account for less than 10 per cent of employees, dominate industry, banking, trade and transport. The roughly 7,000 SOEs, most of them small-scale, only a third of which are profitable, represent a quarter of Vietnam's economic output and provide more than half of the government's budget revenue. The changes were marked by a large redeployment of labour since 1989, retrenching about one-third of the 2.6 million employees of the SOEs. The burden fell most heavily on unskilled and women workers, and with their jobs, workers also lost social subsidies which the state provided. Such massive reductions in, and restructuring of the public sector left the party with a displeased cadre. These workers appeared more vulnerable to change because they were less able to adjust to a changing environment and to take advantage of new job opportunities. In addition, progress in the reform of the regulatory framework for private enterprise and foreign trade has subjected state enterprises to increased domestic and international competition.

Dang Nguyen Anh (1989), in an important study on the laying off of workers from state enterprises, observes that women were particularly affected by redundancies in the restructuring of the state sector. Some reports estimate that around 70 per cent of all laid-off employees were women. The loss of associated benefits - child care, maternity leave, etc – was more significant in many ways than the loss of official salaries, whose value has been eroded by inflation, and, since typically insufficient, were usually supplemented by income from outside work. The fact that women were the first to be laid off in restructuring the state enterprises supports the thesis that households became the main unit of production, while facilities such as child care were decreased in number. However, opportunities now existed for moves into newly emerging sectors of the economy, e g, small-scale service provisions, and many prospered, often developing further the outside work which had previously supplemented inadequate state salaries. The costs associated with this period were therefore relatively temporary in terms of income loss, and often, but by no means always, involved a short period of unwaged work (or unemployment) while the market for services developed or the mechanisms were developed by the state to license private traders.

Among male workers, while the state enterprises were being dismantled, the resulting unemployment appeared disastrous and few of them could find new jobs. As agriculture has done well since 1989, explaining a large part of the success in overcoming the difficult transition to a market economy. Nevertheless, the party was pressed to look at the reforms and strengthen its alliance with the workers.

Continuing reform in these units is a major task for the government and party. To date, most subsidies to SOEs have been abolished, but state firms still enjoy some advantages in gaining access to land and commercial credit. By downsizing the SOEs, Vietnam pursued a hard and agonising phase of the reforms, and has survived the resulting tensions between party and workers, state sector and private enterprises, and the unemployment among laid off workers.

Whether in popular memory or in official propaganda, poverty in Vietnam has never been seen as simply a matter of material income. The experiences of colonialism and neo-colonialism, and of the so-called 'feudal' system, were expressed in terms of personal humiliation, violence, degradation and loss of traditional community solidarity. This aspect of Vietnamese society found expression in such areas as a well developed notion of local 'commons', the obligations of the central government, the emperor and his mandarinate, to retain basic equity, and an intense interest in the articulation of fate and personal talent, perhaps the most basic human issue of poverty. It is therefore quite easy to understand that purely income-based notions of poverty are rather recent arrivals in the Vietnamese approach. It is also noteworthy that the path-breaking official surveys of 1988-90, which focused upon income, were domestically funded and coincided with the shift to a market economy and de-collectivisation. One can thus see the emergence of an income basis for defining poverty, parallel with the shift in the national development agenda.

Recent poverty assessments, based on income, establish that about 60 per cent of the Vietnamese population is poor. An important finding is that poverty among state employees is very low, at less than 2 per cent of all the poor in Vietnam living in households headed by government workers. By far the highest incidence of poverty, 60 per cent, is found among farmers. Since most Vietnamese live in agricultural households which have an above-average incidence of poverty, more than three-quarters of the poor in Vietnam, 76 per cent, are concentrated among the farming population. With the exception of Chinese, the ethnic minorities have a much higher incidence of poverty than the national average, ranging from 66 per cent among the Tay to 100 per cent of the H'mong.

Seen against this background of factors and challenges, the performance of the Vietnamese economy has been quite impressive in recent years, despite limited assistance from the outside world. This is largely due to the country's strong response to economic reform. Real GDP has been growing in the order of 8 to 9 per cent per annum in recent years. The consumer price inflation rate was brought down to as low as 10 per cent by the end of 1995 from 96 per cent in 1989 (and close to 500 per cent in 1986). Investment's share of GDP has risen substantially to around 23 per cent in 1995 from 12 per cent in 1990, while the domestic savings rate more than doubled from 7 per cent to around 16 per cent over the same period. Growth was led by capital construction (19.1 per cent), industry (13.5 per cent) and services (13 per cent). Growth in agriculture, forestry and fishing has also been positive, at more than 4 per cent, despite severe flooding in the country's main granary, the Mekong River Delta.

A review of the recent performance of the economy indicates that it grew by 9.5 per cent in 1995 and will probably maintain this trend for some years to come, with Vietnam's GDP expected to reach 25 billion dollars in

1996. Rice, the staple crop in Vietnam's rural areas, where more than 70 per cent of the population lives, is doing well. Rice production in 1996 is estimated to be around 26 million tonnes, up from 25 million tonnes a year earlier. Rice exports tend to continuously increase, now touching 2.5 million tonnes a year. The inflation rate has declined from 17.1 per cent in mid-1995 to 2.9 per cent towards September 1996 and the government has maintained a tight fiscal policy, keeping its budget deficit for the current fiscal year down to an estimated 1.5 per cent of GDP.

The value of Vietnam's overseas trade continued to rise markedly in 1994, with the value of merchandise exports growing by some 21 per cent to reach 3.6 billion dollars, while merchandise imports rose by an estimated 28 per cent, to 5 billion dollars during the year. As a consequence, the external current account deficit remained around 8 per cent of the GDP in 1994 and 1995.

According to official statistics, the cumulative value of approved foreign investment licences issued during 1989-95 amounted to some 18 billion US dollars. However, only one-third of the underlying capital has been realised so far, partly due to a cumbersome bureaucracy and the reluctance of foreign investors to place all the resources too soon. The sectors attracting most foreign interest so far have included hotels (20 per cent), light industry (16 per cent), heavy industry (14 per cent), oil (12 per cent), construction (8 per cent), agriculture and forestry (5 per cent), and export zones (3 per cent). The government hopes to attract some 30 billion US dollars of foreign investment to help finance its development strategy to the year 2000. This will require a much more substantive streamlining of foreign investment procedures and practices than has been the case to date.

'Official Development Assistance (ODA) has also risen substantially since 1991. In 1993, the US dropped its objection to lending by the international financial institutions. Subsequently, the IMF and the Asian Development Bank cleared Vietnam's arrears and more resources are now available. A number of bilateral donors, most notably Japan, have also returned to Vietnam with substantial programmes. The November 1995 consultative group meeting of Vietnam's major donors resulted in pledges of some 2 billion dollars. This amount was slightly above the 1.95 billion dollars pledged at the 1994 donor conference. Vietnam hopes to mobilise and effectively invest a total of 7-8 billion dollars of ODA to help finance its development strategy during the five-year period up to 2001. In 1989, about 328 million dollars were disbursed as against 690 million dollars in 1995. In general, disbursements have averaged around 500 million dollars per annum in recent years. After 1987 external financial support was extended through the voluntary sector also. Presently, there are about 100 non-government organisations which are actively engaged in development work in various parts of the country and whose average annual disbursements are estimated to be 100 million dollars. However, Vietnam has yet to accept local NGOs or community-based organisations, but the voluntary sector is gradually growing.

On the basis of Vietnam's low income per capita alone (expected to reach 300 dollars GNP per capita per annum, in 1996, for the first time), the country could be considered a 'least developed country' (LDC), yet it has achieved a high level of social development. UNDP's *Human Development Report 1996*, records an adult literacy rate of 92 5 per cent, compared with 50 per cent for other LDCs. This is particularly noteworthy, given the shortage of teachers and the lack of pedagogical and physical facilities The average life expectancy of 63 years is well above the 56-year average for all other LDCs, and infant mortality is encouragingly low at 38 deaths per thousand, in spite of limited access to safe water and an underdeveloped health care system. However, a full 40 per cent of children under 5 years are reported to be malnourished.

This performance is all the more remarkable considering that some of the most difficult decisions and adjustments took place during 1989-92, when Vietnam lost its dominant source of assistance and trade, the former socialist allies in eastern Europe and Soviet Union. The world economy was also stagnating at this time, and few Asian or western partners were present in Vietnam. The analysts say that Vietnam's open-door policy stems from this crisis period of the 1980s, when poor central planning, a war-torn infrastructure and declining Soviet support left Hanoi with few alternatives. But the fact is otherwise, as Dinh Hoang Thang, editor of Vietnam's popular *World Affairs Magazine* wrote: "Who opened the door? For many years the door was locked from the other side. The perceived threat of communism acted as a kind of security glue for most nations to help to hold the post-war capitalist system together, and reject us."

Eighth National Party Congress, 1996

Let us first look at how the party and congress work. The party is the only legal political body in Vietnam, and the congresses are key policy-defining events in its calendar, normally held once every five years. Work on the congress begins months, and sometimes years, ahead of the congress itself, with the formulation of policy goals and directives by special commissions acting under the direct control of the inner politburo and the party's central committee. Views are collated from across the country and sent to the central committee, along with reports on local achievements and failings during the preceding five years. This feedback is then used to formulate a draft political report, which is published at least a month or so ahead of the congress, and remains open for debate and final suggestions from the public. At a closed door meeting, known as the 'pre-congress', just ahead of the congress proper, final differences are sorted out. This meeting of some 1,200 officials from all parts of Vietnam is one of the most crucial stages of the congress. The congress is the final ratification stage, during which, although congressional documents are voted in parts, consensus of opinion is considered a fundamental aim. At the end of the congress a final document, the resolution of the congress, is issued. This becomes Vietnam's policy blueprint for the following five-year period.

It is important to note that Vietnam has no single leader, but a collective leadership triumvirate. The top three positions are the Communist Party's secretary-general, president and prime minister. In practice, the party secretary-general is the country's top official. Of the three, the post of secretary-general is the only one formally voted on by the party's congress. Traditionally, the leadership trio has represented a balance of both north-south-centre regional differences, and conservative-centre-reformist political opinion. Elections to various committees of the politburo are held at the congress. Since 1982 a routine pattern has emerged in terms of membership of the central committee and other groups allowing one-third of the existing members to be replaced with new members. This is the most important process, as it must accommodate all factions and interests within the party and government.

For the eighth national party congress (ENPC) special commissions to prepare documents were established under the direct supervision of the politburo and central committee, who began their work sometime mid-1995. These commissions, as well as unpublished meetings of the politburo and special working groups, spent time sorting out goals and policy guidelines for a variety of issues. The result of these meetings was a trio of congressional documents: 'The Political Report of the Central Committee', 'The Report on Socio-Economic Orientation and Tasks for 1996 to 2000', and 'The Report on Amendments to Party Regulations'. The drafts of these documents were sent to nearly 40,000 party cells (grass roots units) for debate. Their opinions and

suggestions were consolidated by the central committee Party cells also reviewed the work of the preceding period and submitted a report to the central committee. Through this process, a full draft of the political report was prepared and adopted on April 20, 1996, at the 10th gathering of the central committee, who were charged with that task. This document contained details of strategies and procedures to be followed, and allocated responsibilities and tasks for the party and government It was then placed before the party Congress for discussion and adoption These preparatory activities are fairly open, and even outsiders were generally allowed to join and observe This characterises the rare political quality, and inner strength, of the party and its cadre.

To take part in the congress, the party invites key delegates from district level upwards. In addition, representatives from international communist parties and labour movements are also invited to attend. At the ENPC, 40 international participants took part. The presence of foreign delegates from non-socialist ruling parties at the ENPC reflected Vietnam's pursuit of an independent multilateral foreign policy. Heads of delegations from non-socialist ruling parties included senior representatives from Malaysia's UMNO, Singapore's People's Action Party and the ruling Servian Baath Party of Iraq. Foreign ministry official Hong Ha said. "188 parties throughout the world had requested an invitation but only 40 could be accommodated". Still, this party congress preserved a strong communist tradition in showing solidarity by inviting the communist states of Laos, north Korea, Cuba, Hungary, Bulgaria, and China. Representatives of communist parties from France, Russia, Japan, Belarus, Serbia, the US, and India were also present. Premier Li Peng, the vice-chairman of the Chinese Communist Party, headed the Chinese delegation. Li became the highest Chinese party delegate to attend a Vietnamese congress since 1960. In that year, Beijing sent Li Fu Zun, a leading politburo member and vice-premier, to attend Vietnam's third party congress. Li's presence revived a custom that had disappeared in the last three decades because of the strained relations between Hanoi and Beijing, and his presence enhanced hopes of socialist solidarity among the remaining communist states, with his saying at the Congress: "Learning from past experience is essential to the effort to help socialism improve economy in the future. If socialism is to survive then renewed efforts are critically needed at this juncture to build unity among us." Li Peng spoke highly of Vietnam's success during the renovation process and not only buried past strains in the Sino-Vietnamese relationship, but also implied a new approach in strengthening that alliance among communist parties.

The ENPC came under intense scrutiny for a few predictable reasons. Firstly, with economic reforms gaining pace, questions were lingering in the minds of many – mostly westward-looking Vietnamese and foreign investors – observers: "Can the party preserve its monopoly? If so, for how long? What concessions will the party leaders make to maintain their pre-eminence in the government?". Concerns were expressed on the performance of the economy also. Vietnam posted a trade deficit of 2.3 billion dollars in 1995, and it is expected to exceed 4 billion dollars in 1996. The current account, a broader measure of trade in goods and services, posted a deficit of 2.6 billion dollars in 1995, and is estimated to increase to 3.5 billion dollars in 1996. That would be the equivalent of about 15 per cent of GDP, analysts argue, a little more than sustainable levels The government has begun to take the trade-deficit problem seriously through measures such as restricting imports and local sourcing of materials by foreign investors.

Secondly, everyone sought information (even explicit commitment!) as to whether the present pace of economic reforms will continue This discussion indirectly pitted 'reformists' against 'war-veterans', (generally represented by the army faction within the party, including those who had made immense sacrifices during the war, sometimes considered 'doctrinaire', whatever that term might mean within a socialist context), who felt neglected in the new era of economic growth. And finally, what kind of foreign policy did Vietnam expect to pursue in the future.

Speeches, resolutions and discussions at the congress were instructive, illustrating a wide range of experiences in genuine attempts being made to promote growth, redistribution and justice within the broad framework of market-friendly pattern of development. While reflecting the diversity of opinion, the congress contributed significantly to the understanding of the steps and instruments necessary to turn political processes into policies with increasing momentum.

In his inaugural speech, general secretary Do Muoi acknowledged the difficulties thus: "The work of building the Party and the socialist state governed by law and the consolidation of all the people in a united block, has made positive changes. We also understand our mistakes and weaknesses. Our country is still poor and under-developed. We have failed to practice thrift in production and consumption...On the whole, Do Muoi advocated more state ownership of public property, respect for the full autonomy of the business mechanisms, and the development of effective social equity systems. He also stressed that the party should "pay more attention to the rural areas and working population". In some ways, he admitted that the party had gained an 'urban' outlook and a rethinking was needed.

Former secretary-general Nguyen Van Linh, the architect of economic reforms in Vietnam, was less cautious in his remarks. He addressed the congress thus: "A number of party cadres have resorted to corruption and they are protected by high authorities... For many years, we have been talking about the state economic sector playing the leading role in the economy, bringing the private capitalist sector under state control, developing a multi-sectoral economy with socialist orientations. See what we have achieved. Joint venture companies and 100 per cent foreign-owned enterprises do not allow the setting up of party cells or trade unions. Foreign firms pay less than local ventures... All these happen because the party has allowed itself to be ruled by the foreign investors More people visit the pagodas than party cells. We have not just created differences in society but allowed it to become a norm"

In response to hardline rhetoric, General Vo Nguyen Giap, the military mastermind behind Vietnam's defeat of the French and later the Americans, added his voice at the congress to calls for greater caution in Vietnam's reform process. He said: "Ten years of the reform process proves that it is the right policy. I should say there are many more favourable conditions for us than in the past that allows us to consider appropriate reforms. But there are still many difficulties... We have carried out these changes at a pace determined by us. Our institutions did not collapse. In fact, they gained more strength... We are poor and face formidable challenges. These difficulties need not deter us from pursuing change. We will bring our workers into our fold. We will pay more attention to develop the rural areas. We are communists, we are pragmatists, we are optimistic. The first thing we will have to do is follow the cause of national independence and socialism. Second is to learn from outside. But we do it in Vietnam's way. We need not rush, and lose our sense of society and togetherness." The final resolutions at the congress were more direct, stating that the party would ensure the growth of state enterprises, continue social subsidies, provide public services and ensure fair economic growth so that the benefits reach all sections of society. The party not only agreed to make structural changes, but also political adjustments which would allow cadres to take more control of the situation.

One of the greatest challenges faced by the leadership, in summary, was how to

further develop the country and assure every section that the future course of socio-economic progress would be equitable and just. The main issue challenge which faced this year's congress was how a party founded on the ideology of Marxism-Leninism can adjust to the emergence of a private sector and free market tendencies, and at the same time control the impact of influences coming from abroad, including foreign direct investment in the private sector. Everyone had agreed that a development of the east European kind, with a rapid breakdown of the communist regime and a take-over by anti-communist forces, was unlikely to happen in Vietnam. The possibility of a forceful revolt against the leadership is remote, and they can count on the support of the army and a large part of the rural population. Based on past experiences, a careful loosening of the political system was expected by this group of analysts.

How would the party congress affect the foreign investor in Vietnam? For one thing, in the run up to the congress, the atmosphere was clearly one of reservation. Neither the investors nor the bureaucracy was keen to make a decision, or take responsibility for any decision. Many investors complained that the pre-congress period was a time of non-action by the government and "everything was put on hold". Despite the daunting task of defining what it means to build socialism in today's market economy, the CPV had dropped little hints about the future. Draft documents were circulated, showing that the economic reform process would continue, and that Vietnam would take determined steps to industrialise, and to maintain the dominance of state-owned enterprises Such explicit statements did not convince foreign investors. They wanted more and more firm commitments from Vietnam.

One observes that the party congress was expected to correct various market failures and improve conditions for foreign investment. The pre-congress utterances by foreign entrepreneurs focused on some of the more worrying, nitty-gritty, drawbacks on investment promotion in Vietnam. This stems from a lack of understanding of the cadre-based party political process by the investors. There are types of policies that the party congress does not cover in any depth. There is little policy debate on issues such as improving the incidence of public programme benefits, reflecting a less than full appreciation of how economic behaviour, as well as resources and administrative capabilities, influence the performance of programmes designed to reduce poverty or increase foreign investments. The focus is primarily on formulating guiding principles for the party and the state, policy decisions which have traditionally been perceived to be actually or potentially significant (e g, the party congress excludes any discussion on laws or the enforcement of law).

Recognising the importance of SOEs at the congress, the party pledged to raise the state sector's share of the economy from about 40-45 per cent to 60 per cent by 2020. This proposal was criticised by many as a risky proposition, and was dropped from the congress document, but assertions were made that the state sector's leading role would be maintained. On the whole, it appears that the SOEs will transfer ownership to other sectors, especially joint ventures, when these new sectors grow sufficiently. Meanwhile, the party has agreed to maintain social subsidies at considerable levels and the government has introduced 'social taxes' to cover the cost of these subsidies. For example, the cost of a local employee with a take home salary of 1,500 dollars amounts to 6,000 dollars for the firm, in the private sector, which employs him/her. Investors consider it as 'punitive taxation' on foreign investors who employ local people. It also, they argue, reduces the country's labour-cost advantage. Foreign investors are working overtime to resist such regulations. However, the party has so far maintained its pro-worker and pro-social subsidies stance.

It is a significant point, that, while western nations tend to 'harass' China on the question of human rights, they do not question the record of Vietnam.[4] And for valid reasons Even the US limits its criticism to the so-called inaction of Vietnam on the issue of "full accounting for those *missing-in action* during the war". Since the 6th national party congress, in 1986, limited liberty has been allowed, not only within trade and commerce, but also in art, culture, and in political and ideological debates. Visitors to Vietnam have been able to have frank political conversations with Vietnamese colleagues and friends who no longer repeat official views, but speak their own minds. At the same time, Vietnamese citizens have become bolder in their criticism of bureaucracy, corruption, abuse of power and mismanagement in the public sector. Doi Moi and Vietnam's increased contact with the outside world have reduced people's fear of the authorities and the party. Simultaneously, thousands of prisoners, who had been held in re-education camps in Southern Vietnam since 1975-76, were released in 1987-88. Despite some restrictions, there was no repression of the Chinese kind. Voices of dissent were allowed while administrative and judicial measures defined the limits. The new Vietnamese Constitution of 1992 recognised human rights and even began a debate with Amnesty International. However, the media/press is still not completely independent, but nor is it totally subservient. It is significantly freer and more unconstrained than it was before 1986. An interesting feature is the fact that while the press is more free, publishing houses have to submit all manuscripts for approval before they are printed, and unauthorised literature may not be imported or disseminated. Despite this reservation, the book market has grown considerably since 1986. Imported and pirated video cassettes are available virtually in all towns, and one obviously hears about the infiltration of 'foreign' culture (this led to the 'social evils campaigns' which we will address later in this piece).

It will probably go down on record that the ENPC was confronted with the most dramatic development decisions, given the reality that the ruling Communist Party is still in transition. Preparations for the congress were launched in the most appealing way As we noted earlier, the build up to the ENPC began sometime early in 1995 when Hanoi made preparations to celebrate the 20th anniversary in April 1995 of its victory over the US and allied forces which brought about the unification of south and north, forming one nation. The observance of that historic day was sober, yet emphasised some political realities. Hanoi released its official data on the suffering of the war years, which stated that more than one million North Vietnamese and southern communist soldiers were killed between 1954 and 1975, along with two million civilians. Significantly, the deaths of 2,00,000 South Vietnamese soldiers, most of them draftees, the 3,62,000 crippled for life, and the hundreds of thousands of widows and orphans, were left unmentioned. The lack of real national reconciliation was apparent. It is not difficult to understand why party stalwarts put so much emphasis on their military victory. The Communist Party is justifiably proud of its strategic brilliance, the heroism of its troops, and the immense sacrifices of the Northern Vietnamese people and southern communists. Moreover, the success of the party's struggle is its source of legitimacy.

The same concern for legitimacy also allows for party leaders, even today, to distance themselves from Vietnam's domestic business people. Foreign investors are always welcome, but local entrepreneurs are not encouraged. Some local economists say that this has led to many Vietnamese sitting on unbanked savings (estimated to be around two billion US dollars, while overseas Vietnamese may command many more millions of investible surplus.

Traditionally, it is the practice of party leaders to canvass opinion from its members. While doing so this time, party conservatives received some major shocks. Not only that members were asking for 'more democracy' but in certain areas common people criticised

the 'work of the party leaders'. Since Vietnam's economic success has spawned corruption, prostitution and bureaucratic red tape, and with the question of succession looming, the party now faces more challenges than ever. Many felt that the party's legitimacy was compromised by uncontrolled profiteering. This led to subtle, back-door discussions between conservatives and reformists, the instigation of prime minister Vo Van Kiet of a strategy paper on 'reforming the state' (August 1995) which sought fundamental changes in government-business relationships, and sought to distance the party from day-to-day government administration. Very probably this triggered a series of moves from the 'conservatives' who argued that accepting Kiet's plan would mean an end to socialism and the party. They also began to reinforce the party's control over the economy and state, the first signs of which were evident, when, early in 1996, Vietnam initiated a campaign against 'social evils' which was seen as a result of the conflict between reformists and conservatives in the Communist Party.

The 'social evils campaign' (January/March 1996) had three broad targets: trademarks and signs written in foreign languages; the improving of public morality (drive against 'spiritual pollution'), with the main targets being prostitution, drugs, gambling, pornography and other 'toxic cultural imports'. And lastly, the efforts to be made to rebuild a base for the socialist culture. Tens of thousands of pornographic or violent video tapes were confiscated, while hundreds of massage parlours and karaoke bars have been closed or severely restricted. Local level campaigns were promoted, with public bonfires of unsuitable video tapes, calendars, books, posters, etc. Party stalwarts maintained that there had been a deterioration in lifestyle in matters pertaining to social and cultural affairs. This campaign was also viewed by many as a shrewd move by conservatives to imply that social evils are a direct result of the reformers' deviant political line.

While the social evils campaign succeeded in placing the party's 'conservative' group ahead of reformists, it could not minimise debate on the 'corruption' in public administration . For some time now, corruption has become a common catch pharase across Vietnam, and to some extent has affected the party's past 'poor but pure' image. ENPC agreed that corruption is rampant and pledged to fight it. At the congress, many stalwarts angrily argued for stern punishment for those caught on corruption charges, when the government reported that about 17,000 economic crimes were detected in 1995 alone. Eliminating corruption is a daunting task, as it primarily involves reducing a bureaucracy which provides ample opportunities for cadres to extort pay-offs with which to supplement their meagre official salaries. In early January 1996, a war veteran wrote in a local daily thus: "Most of us have at least 10 wounds, but none of them is as deep as the inner wound we feel now". The moral anger of the older revolutionaries and war veterans was most visible in the run up to the congress, and party officials faced such charges with trepidation. Some oficials present at the congress claimed that it was the involvement of powerful persons which prevents them from taking any action against corruption. "Many party members are virtually immune to any action. How can we root out corruption?" An official argued with disappointment and bitterness. The fact that debate on these issues began earlier, and, in fact, were discussed in detail during the first day of the congress, reflects the anxiety over the future among party leaders in both the conservative and reformist camps. Yet, neither the *Political Report of the Party*, submitted at the congress, nor government officials, had the courage to take up the corruption issue for a serious debate. Simply put, to deal with these issues the party leaders are living on borrowed time.

During the 1920s through to the 1940s the active party membership of intellectuals was common in Vietnam. This year's congress also confirmed a renaissance of the intellectual which began in 1986. For some time the events in China hardened the party in Vietnam while still allowing dissident intellectuals to be little active. In an effort to win over educated people the party launched a careful strategy. In public campaigns before the ENPC, the party promoted the wider use of a book and pen symbol, and introduced its cadre as follows: "...are 2,200 delegates representing 2.3 million party members. Among the delegates 270 will be women, 230 representing ethnic communities and 900 university graduates." At the congress itself, many statements were made to imply that the traditional peasant-worker alliance is now expanded to include the educated and intellectuals. For example, in his opening speech at the congress, party general-secretary Do Muoi stressed that education and training must become the basic building block of state policy, and that the party members themselves, special attention must be paid to education, training, and to raise their political acumen, revolutionary virtues and intellectual levels.

Many analysts argue that formal recognition given to educated persons is just an attempt to buy continued loyalty from those who have received a higher education, while projecting an intellectual face to the party, thus minimising direct criticism of its policies and programmes. Debates among intellectuals acknowledge that the old cold war uncertainties have broken down, and the Vietnamese are rightly unsure as to what could replace them. Further, they are not clear as to how far they can go in trying out new ideas without provoking a reaction from the party's conservatives. All said and done, when meeting intellectuals in today's Vietnam one observes a mixture of ideological self-doubt and intellectual curiosity. They are less constrained about discussing themes that were considered taboo not so long ago. And at the party congress they played a crucial role in highlighting some of the important issues, such as levels of external borrowing, investment priorities, and general social concerns on corruption, among the party cadre and bureaucracy.

Dinh Hoang Thanh quite rightly said before the congress that "this congress is not about policy matters. Present policies will be continued in basic form. It is about leadership and the party's orientation. In that way this congress is different from the 1991 conclave when there was real uncertainty about which way Vietnam would go after the events in eastern Europe, and there were voices calling for multi-party democracy." It appears that, since 1986, the party has put in place a thorough screening system for its members. Nearly 80,000 members were expelled between 1987 and 1990 alone, and another 12,000 were reprimanded, up to early 1996, on various grounds, such as corruption, abuse of power or pursuing deviant political ideology (mostly those who showed some enthusiasm when the Soviet Union collapsed). In addition, the military's campaign for the party chief's position indicated that they were no longer content with the presidency, which had been filled by former General Le Duc Anh. The military argued that since they have important responsibilities they should also have some real power and the question was whether the military could impose its will on the rest of the party. The final leadership nominations to the party, involving extraordinary security precautions, showed that the legacy of Vietnam's martial history is as strong as ever. The outcome also demonstrated that the popular scheme, pitting hardliners against reformers, was somewhat overdrawn. The newly-elected 169-member central committee, which will be in power for the next five years, has 124 new members, many of whom have attained higher education. Only 15 per cent of the total are either party cadres or former military personnel. The party retained the troika: secretary-general Do Muoi, president Le Duc Anh and premier Vo Van Kiet. The addition of new blood in the party's top echelon is in keeping with its resolve to consolidate the state's control

over a market economy. The presence of this 'new blood' at the ENPC was obvious. The party chief, Do Muoi, 79, said at the congress: "Vietnam is being rejuvenated. Those who are younger will decide the future, and the old will return to the earth." Work was meticulously done to ensure that the new generation of leadership will continue to carry the torch of socialism, as the country moves into the next century with its reforms. Huu Tho, member of the central committee and editor-in-chief of the party's newspaper *Nhan Dan*, wrote thus: "One of the party's tasks is to properly prepare the younger generation for leadership positions. The second generation is prepared and in place, and we are working on the third generation now. There is no crisis of succession." He added: "The party is strong as ever. Therefore, we do not see a need to discuss on multi-party processes."

The ENPC came to a dramatic close with the eleventh-hour rejection of a proposal to centralise executive power in an elite five-member 'Standing Board'. Tran Trong Tan, former party secretary of Ho Chi Minh City, drew applause from fellow party members when he objected to the plan as 'undemocratic', just before the official closing session of the congress. His reservations won widespread support and the congress agreed to amend a clause in the party statute to ensure that the standing board did not become a 'superpower' authority within the party. Under the new arrangements, the standing board will serve as the party's secretariat, to run the day-to-day work of the ruling body.

Resolutions of the congress did not bring much cheer among the business community. For example, investors hoped for some changes in land use rights. The state's objectives – to maintain the people's ownership of land, reduce speculation, limit land loss [and ensuing poverty] by vulnerable groups, and avoid misuse of resources – were not appreciated by the investors. They argued that an incomplete regulatory framework has led to inadequate access to, and regulation of, land use rights. The difficulty is not that the government wants to maintain the ownership of the land by the people. National ownership of land on behalf of the whole population is practiced in many market economies without adverse consequences on enterprise development. Present ambiguities in the implementation of the land law limit, in practice, the availability and transferability of land use rights, which are considered as major impediments to business development. The party resolved to streamline procedures relating to land, such as transferability, land prices, registration and taxation, but no major concessions were made. The party also agreed to condense 'entry regulations' for new investors. The party encouraged the state to establish and build constructive government-business relations.

Party leaders pointed out that cumulatively, disbursed foreign investment only amounts to about a third of all approved projects since 1988. For its part, the party restated that it is intent on improving the climate for foreign investment, and says the commitment drop-off is due to a more stringent screening of foreign investment projects Government has made many amendments to address investors concerns. However, the thrust of the changes appear to be aimed at protecting domestic investors from having to compete with foreign investors. On such issues the party document argues thus: "We are socialists first and then only market-friendly policy-makers. We do not wish to be guided by the market in our policy-making " Such statements keep investors guessing but despite some misgivings, there is plenty of optimism and hope among foreign entrepreneurs and the business community appeared much relieved that the basics of the reform programme were left untouched.

In an interview with the popular monthly *Vietnam Economic Times*, Mathilde Genovese, a prominent business-woman said: "Investors, in general, are not concerned with the type of government in power However, plans to establish party cells and party-controlled unions in foreign-invested enterprises does not sit well with us Few would welcome their presence For us it is an issue of economic survival By keeping the party so close, I stand to lose confidential business information."

While western investors are still sceptical about the expanded role of the state in managing the economy, some Asian businessmen asserted that the capitalist economy model that Vietnam has adopted is one that has been used successfully in Thailand, Malaysia and Singapore, at the beginning of their development in the early 1970s and 1980s. "Thailand has allowed its state enterprises to grow first, particularly in basic infrastructure. Privatisation came about only in the last 10 years. Therefore, what is happening in Vietnam should be considered as normal and there is no need to exaggerate the monopolistic role of the party", one businessman from Thailand said in an interview to a local daily. Thus, the perceptions on the impact of the decisions taken at the congress differed among Asian and western business communities.

Conclusions

The progress which has been made in Vietnam since 1986 is impressive. This growth has not been generally acknowledged, as Vietnam has had bad press coverage in the west for so long, and news reports have been biased against it. Despite such unfavourable publicity, a decade of economic reforms, put in place since the 6th national party congress (1986), has radically transformed a society which had endured years of rationing and economic hardship, and the party has managed well the economic advances made so far. The government has been successful in its first steps of transition to a market economy, despite limited external assistance. The second cornerstone is Vietnam's open-door policy. Scope now exists for the state to create more enabling policies to support dynamic public and private sectors.

The 7th national party congress (1991) resolved to combine the principles of the party with western ideas of checks and balances between separate units of the government, when it said: "The Vietnamese state represents the unity of the three arms of government – legislative, executive and judicial – with division of functions and devolution of powers while ensuring uniform guidance from the central level (i e, the party)." The elections held in 1992 were not democratic but they rejuvenated the national assembly. While implementing the broad mandates of the party, the national assembly demonstrated its independence time and again (as was evident during the debate on the New Constitution in 1992). There were some genuine political discussions about important matters, and these days, the party provides less and less mandatory guidelines. The participation of national assembly members at the eighth national party Congress (ENPC) was purposeful and well thought out The national assembly has gained immense self-confidence, and one expects that it will play a more positive role in the days to come.

Overall, the political report ratified by the congress in 1996 reflected the feeling that Hanoi was willing to experiment, learning from experience, with a more open-door approach. It is true that the congress did not make any dramatic changes, beyond introducing young blood to lower the average age of the central committee by two years, and committing itself to "bring rural areas into focus" As far as substance is concerned, continuation was preferred rather than proposing a 'turning point'. Personnel issues assumed priority at the congress, while substantive policy issues affecting investors were not addressed. The party did acknowledge this fact by observing that: "People are a little disoriented. Before we had a very egalitarian society. The recent changes have created different groups with varying incomes. People no longer know why they are." The underlying fear that the current social stratification of 'haves' and 'have-nots' runs contrary to traditional

socialist philosophy, carries with it the seed of instability and anxiety. These changes have also led to the gradual disappearance of a sense of solidarity that was once a defining part of Vietnamese life. "At least in the difficult times, no one was alone", observed the document This collective disorientation, in some ways, has sparked a return to pagodas and churches. After years in which religious practices were rather neglected, more than 90 per cent of Hanoians are back worshipping and the number of religious observers, a local analyst claimed, is highest among those with the largest incomes

Evaluating the party's impact requires an assessment of how different the situation would have been in its absence. Vietnam's response to the threat it confronted in the 1980s was restrained and interestingly, most of the useful examples of adaptive response were self-inspired. Vietnam's experience also suggests a series of ways in which other developing nations should act to secure optimum performance. First, Vietnam has shown that external inputs, however massive, cannot effectively be utilised without viable indigenous institutions to carry out reforms. The survival of institutions which were built during the socialist regime was proven to be extremely valuable when reforms were undertaken. In response to foreign investments, the party and state stance has remained ambiguous. Second, the state was careful to lessen social costs of the reforms while maintaining a broader goal in mind. coping with the social devastation wrought by the economic crisis that gripped the country from 1975 through late 1986. Third, the party has carefully avoided mirror-imaging as a routine response to crisis situations. While one could question the role of institutions like the World Bank or IMF in formulating the economic reforms that began in 1989, it is obvious that they could not play a leading role in shaping the process of change undertaken by Vietnam. In hindsight, Vietnam attempted to go much further in shaping its economic policies than circumstances allowed Further, experience in Vietnam shows that most state and party intervention will have to remain 'targeted'. Fourth the integration and co-ordination between party and state units has been effective in providing the necessary support to ensure that resources are optimally utilised. Fifth, the party not only allowed free debate on its policies and strategies, but considers dissent as part of its self-analysis and growth. The independent functioning of the national assembly and its discussions with human rights' organisations like Amnesty International are illustrative of this approach.

We began this paper with the objective of understanding the party's role in Vietnam's transition and success. We found that the diversity of experience, the variety of institutions, and the great variation in policies that Vietnam has pursued has shown that efforts and initiatives were taken with a clear focus, commitment, and a willingness to learn. Broadly speaking, we have seen that the reforms initiated in Vietnam since 1989 brought with them, at least initially, economic growth without unduly disturbing national institutions. The common assertion that communism has been strongly biased against a market economy, with privileged policies, limited access to information, and so on, cannot therefore be seen as a characterisation of the most powerful strategies at work in Vietnam, on socio-economic change. In fact, the experience of Vietnam proves that institutions that were built on socialist principles and policies were powerful instruments in implementing economic reform and minimising the social cost of the crisis, with the poor being well protected during the implementation of the macro-economic stabilisation and adjustment programme, begun in 1989.

Of course, the tirade against communism continues Yet, despite this, a decade after the successful introduction of reforms in China and Vietnam and the somewhat less turbulent transition in former east European nations like Hungary and Bulgaria, there has been a modest revival of interest in 'socialism'. It has been stimulated by these surviving communist regimes, who not only have succeeded in reforming the state but also the party apparatus. It seems reasonable to surmise that an optimal mix of party and state control, and private sector development, dependent on a number of factors including the characteristics of the poor and country-specific circumstances, is the correct way forward for the socialist states. In general, the experiences of Vietnam has established that a combination of universalism in certain categories of party and state intervention, and a finer targeting of the private sector in others, will benefit society by maintaining social equity and balance. Such a two-pronged approach has proved to be a sound starting point for policy design, and in implementing it, Vietnam has ably confronted the challenges which have arisen from the confusion between the ends and the means of policy. It has also established that party and state control in development should be seen as a potential instrument, never as an objective in its own right.

Notes

[In preparing this paper, discussions with K P Kannan, Steven Lanjouw and Bernadette Roche were useful. Usual disclaimers apply. Various party documents presented at the 8th national party Congress were extensively used to prepare this paper. Some citations were quoted in *The Viet Nam News*, an English daily published in Hanoi. The monetary denominations are quoted in US dollars]

1 Many commentators, rightly so, attribute the difference between Asian and European communism as an outcome of 'agrarian' and 'industrial' communism. Analysts do note that despite some difficulties, 'milder' forms of socialism in Hungary and Bulgaria have survived in Europe.

2 Contemporary studies on Vietnam are somewhat limited to 'war-related' themes. This is reflected in the popular perception that considers Vietnam as "a brutal jungle war zone"

3 Ever since 1955 the Soviet Union have extended aid to Vietnam, it has invested heavily in the basic sectors of the Vietnamese economy through 250 different projects, most of which were involved in energy-related sectors such as hydroelectric power generation or petroleum exploration When the Soviet Union collapsed, the agriculture sector which used to depend on the import of more than 60 per cent of its fertiliser from the Soviet Union was the most severely hit

4 Immediately after gaining independence Ho Chi Minh had recognised the need to allow freedom of expression In an address to party members in 1960, he advised the members to work on making progress on the home front by pressing for democratic rights, such as freedom of the press and of assembly, and amnesty for political prisoners. He asked them to try to win over two categories of people they had not considered before: liberal or discontented persons, and small shopkeepers and entrepreneurs [cited in *The Vietnam Connection*, Isabel Molyneux, 1991]

5 Vietnam's national assembly approved a major cabinet reshuffle on November 6, 1996 removing 12 ministers and naming eight replacements in line with a proposal made by prime minister Vo Van Kiet The reshuffle, which was made on the heels of the party's 8th congress in July, is regarded as a move to bring rising party cadres into important government positions

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How Important Are Changes in Taste?

A State-Level Analysis of Food Demand

J V Meenakshi

Food demand in India has been characterised by changing preferences. An analysis of state-level demand based on the linear expenditure system suggests that consumers are switching away from cereals toward the more expensive milk, poultry and meat products. This is consistent with dietary changes associated with economic growth the world over.

IT is now well established that per capita cereal intake in India has not increased despite increases in incomes and availability. Indeed, between 1972-73 and 1987-88, the consumption of cereals in urban India averaged around 11.2 kilograms per capita per month and that in rural India declined from 15.3 to 14.5 kilograms per capita per month. This decline is part of a secular change in the composition of the Indian diet: consumers - both rich and poor - are spending relatively more on the non-cereal foods such as milk and meat than on the cereals. Some authors have argued that such shifts in expenditure shares are not merely a reflection of increased prosperity: rather, food preferences have been changing over time. In a recent paper, Radhakrishna and Ravi (1992) demonstrate that taste changes were an important factor in explaining the decline in cereal consumption - accounting for nearly 17 per cent of the decrease in cereal intake in rural areas observed between 1972-73 and 1987-88 at the all-India level. In urban areas the corresponding figure is 8 per cent. But are these changes in taste occurring uniformly over the country? Or are there significant regional differences in the extent of change in taste? This paper attempts to answer these questions. It utilises a simple model of taste change, within a complete demand systems framework, to document the nature and magnitude of changes in taste among food items for the rural and urban areas of 16 states.

That there are important regional differences in food consumption patterns has been long-recognised. This is perhaps obvious, given the substantial cultural differences in the country. Studies documenting regional income elasticities of demand for food date back to the late 1960s (see, for instance, the brief review presented in Bhattacharya 1978). This recognition, however, has not typically been reflected in most complete demand systems for India. In part, this is due to the lack of data on commodity-specific retail prices at the state level. Recently, however, NSS-based price indices have been worked out by Tendulkar and Jain (1993) and Jain and Minhas (1991); these are used in this paper.

Model Specification

The paper utilises the Linear Expenditure System (LES) to explore regional variations in food demand and to capture changes in taste. The LES is a popular demand system and has been widely used both in India (for example, by the Planning Commission) and abroad. Its principal advantage is its ease in interpretation, although it also makes some restrictive assumptions about the structure of underlying preferences.[1]

The basic model takes the form.

Model 1: $$p_i q_i = p_i \gamma_i + \beta_i [Y - \sum_k p_k \gamma_k];$$

$$\sum_i \beta_i = 1, \; q_i - \gamma_i > 0$$

where p and q refer to prices and quantities, the subscript i denotes the i-th good; Y is total expenditure, γ is the subsistence parameter or the committed quantity and β is the marginal budget share.

Incorporating changes in taste in a utility-consistent manner can be done in several ways. Two of the more simple formulations are used here:

(1) Assume that the committed quantity is a linear function of time (denoted by t):[2]

$$\gamma_i = \gamma_{1i} + \gamma_{2i} t$$

Substituting in Model 1:

Model 2:

$$p_i q_i = p_i(\gamma_{1i} + \gamma_{2i} t) + \beta_i [Y - \sum_k p_k(\gamma_{1k} + \gamma_{2k} t)];$$

$$\sum_i \beta_i = 1, \; q_i - \gamma_i > 0$$

(2) Assume that the marginal budget share is a linear function of time (t)

$$\beta_i = \beta_{1i} + \beta_{2i} t$$

Substituting in Model 1:

Model 3:

$$p_i q_i = p_i \gamma_i + (\beta_{1i} + \beta_{2i} t) [Y - \sum_k p_k \gamma_k];$$

$$\sum_i \beta_i = 1; \; q_i - \gamma_i > 0$$

To incorporate regional differences a fixed effects model with intercept shifters corresponding to the various regions was estimated, both with and without taste change. A simple likelihood ratio test can then be used to determine the importance of taste changes and regional differences.

Data

This study is based on the household surveys on consumer expenditure conducted by the National Sample Survey Organisation. The NSSO uses a stratified, two-stage sampling design; with villages or urban blocks selected in the first stage, and households in the second. The survey is conducted over four quarters or subrounds in the year, to minimise seasonal influences on consumption. In this paper, survey results for five rounds are utilised: 1972-73 (27th round); 1973-74 (28th round); 1977-78 (32nd round); 1983 (38th round) and 1987-88 (43rd round). These are published in various issues of the NSSO journal *Sarvekshana*.

For each round, information on average per capita household expenditure on various commodities is presented for between 10

Table A

	Log Likelihood		
	Without Taste Change Model 1	Taste Change Model 2	Taste Change Model 3
Rural India:			
With regional dummies	-8911 (22)	-8846 (26)	-8864 (25)
Without regional dummies	-9165 (7)	-9148 (11)	-8911 (10)
Urban India:			
With regional dummies	-3207 (22)	*	*
Without regional dummies	-3756 (7)	-2377 (11)	-3001 (10)

Notes: The figures in the parentheses refer to the number of parameters

* Log likelihood values not reported as estimates are extremely sensitive to changes in starting values of the coefficients

and 14 income[3] groups in each state. The paper uses information on 16 states, which account for nearly 90 per cent of the country's population (in 1991). Thus for each survey year, there are approximately 150 to 200 observations, the total sample size for the five rounds is 1,053 for rural areas and 1,018 for urban areas.

To limit the number of regional dummies, the 16 states have been divided into six regions, based broadly on agroclimatic characteristics. These are: Northern – Haryana, Himachal Pradesh, Jammu and Kashmir and Punjab, Central - Madhya Pradesh and Rajasthan, Western – Gujarat, Karnataka[4] and Maharashtra; Eastern – Bihar, Orissa and West Bengal; Southern – Andhra Pradesh, Kerala and Tamil Nadu. One state, Uttar Pradesh, is treated as a region in itself.

The study considers budgetary allocations of food expenditures alone, implying that the allocation of food expenditures is separable from that of non-food items. Within foods, a four-commodity classification is used: Cereals and cereal substitutes[5]; Milk and milk products; Meat, eggs and fish; Other foods. As noted earlier, the price data in this study are taken from state-specific indices computed by Tendulkar and Jain (1993) and Jain and Minhas (1991). Unfortunately, fractile-specific price indices are not available at the state level; in this study, therefore, people all across the income spectrum in a given year and state are assumed to face the same prices.

A non-linear maximum likelihood procedure is used for estimation, dropping the fourth commodity group: other foods. The computer package SHAZAM uses the quasi-Newton or variable metric method for estimating non-linear models. A convergence criterion of 0.0001 was specified in all estimations.

RESULTS

The log likelihoods of the estimated systems are presented in Table A. It is clear that in all cases, the likelihood ratio test argues strongly in favour of a model with regional specificity as well as taste change.

Given the evidence in favour of incorporating regional specificity, especially in the rural areas, separate demand systems for each of the 16 states, both with and without taste change were estimated. Table 1 presents the relevant log likelihoods.

Evidence for significant changes in taste, based on the likelihood ratio test, is found in most states, especially for the variant in which the marginal budget shares (β) are postulated to vary linearly with time. In rural areas, Model 3 has a significantly higher log likelihood than the static (no change in taste) version in all 16 states. In urban India this is true for 15 states – the exception being Tamil Nadu. The evidence is less-convincing

TABLE 1: LOG LIKELIHOOD VALUES

	Rural			Urban		
	With Taste Change in γ	With Taste Change in β	Without Taste Change	With Taste Change in γ	With Taste Change in β	Without Taste Change
Northern						
Haryana	–339	–332	–351	–378	–367	–380
Himachal Pradesh	–362	–358	–366	–341	–336	–345
Jammu and Kashmir	–513	–480	–516	–487	–482	–493
Punjab	–346	–340	–366	–352	–350	–358
Central						
Madhya Pradesh	–354	–348	–356	–393	–372	–394
Rajasthan	–381	–366	–386	–385	–374	–392
Western						
Gujarat	–354	–334	–368	–349	–329	–354
Karnataka	–350	–323	–366	–410	–404	–412
Maharashtra	–340	–315	–348	–391	–387	–399
Eastern						
Bihar	–407	–403	–410	–485	–474	–489
Orissa	–419	–412	–420	–530	–512	–533
West Bengal	–531	–494	–538	–487	–478	–499
Southern						
Andhra Pradesh	–321	–308	–345	–388	–382	–391
Kerala	–336	–310	–345	–444	–428	–456
Tamil Nadu	–273	–279	–292	–398	–397	–401
Uttar Pradesh	–404	–372	–410	–400	–393	–403

Notes: 5 per cent critical value of Chi-square with 4 degrees of freedom: 9.49
5 per cent critical value of Chi-square with 3 degrees of freedom: 7.81.

TABLE 2. ESTIMATED TASTE CHANGE COEFFICIENTS (FIML) – RURAL INDIA

	Cereals		Milk		Meat	
	γ_2	β_2	γ_2	β_2	γ_2	β_2
Northern						
Haryana	–1.73	–0 03	–2.13	0 02	–0.09	neg
	(1 14)	(6 21)	(0.60)	(4 35)	(1.01)	(0.03)
Himachal Pradesh	1.51	–0.02	2.00	0 01	0.18	–0 001
	(1.94)	(3.26)	(2.08)	(2 27)	(0.95)	(0.38)
Jammu and Kashmir	5 28	–0.03	2 55	–0.003	1.39	–0 06
	(1.32)	(3.01)	(1.34)	(0 54)	(0 99)	(8.15)
Punjab	–1.64	–0.02	–3 33	0.01	–0.44	–0 01
	(1 36)	(3.83)	(1.28)	(2 38)	(3.03)	(4.40)
Central						
Madhya Pradesh	0 96	–0.03	1.08	0.02	0.11	neg
	(0.75)	(3.90)	(1.15)	(3.71)	(0.84)	(0.10)
Rajasthan	–0.69	–0.03	0.84	0.03	0.05	–0 003
	(0.42)	(4 92)	(0.49)	(4.46)	(0.46)	(3.25)
Western						
Gujarat	–0.58	–0.04	1.67	0 03	0.07	0.002
	(0.44)	(11.23)	(1.30)	(8.99)	(1 20)	(3.21)
Karnataka	–5.02	–0.07	–0.31	0.02	–0.31	0.003
	(4.11)	(12.67)	(1.00)	(8.14)	(2.14)	(2.69)
Maharashtra	–0.97	–0.06	–0.22	0.02	–0.38	0.003
	(1.06)	(9.55)	(0.50)	(7.64)	(1.63)	(1.60)
Eastern						
Bihar	–0 90	–0.02	0.05	0.01	–0.07	0.002
	(0 57)	(3.23)	(0.09)	(3.93)	(0.32)	(0.88)
Orissa	1.12	0.001	0.25	neg	0.16	0.01
	(0.79)	(0.10)	(0.67)	(0.10)	(0.40)	(3.03)
West Bengal	2.39	0.01	0.73	–0.02	1.41	0.01
	(0.95)	(1.61)	(0.59)	(2.43)	(1.14)	(3.15)
Southern						
Andhra Pradesh	–2.46	–0.03	–1.26	–0.001	–0.82	0.01
	(2.16)	(6.51)	(3.13)	(0.23)	(3.57)	(4.07)
Kerala	–1.59	–0.05	–0.25	0.007	0.11	0.01
	(1.97)	(8.85)	(0.69)	(3.29)	(0.30)	(8.24)
Tamil Nadu	–2.81	–0.02	–1.08	0.002	–0.70	neg
	(2.71)	(3.56)	(2.57)	(0.81)	(2.77)	(0.10)
Uttar Pradesh	–3.19	–0.06	–1.91	0.03	–0.28	0.01
	(1.79)	(8.64)	(1.14)	(5.86)	(1.20)	(5.02)

Notes: Figures in parentheses refer to absolute values of t-ratios.

for the variant in which the committed quantities (γ) vary with time (Model 2): it is preferred over the static version (Model 1) in 11 of the 16 states in rural areas and in seven states in urban areas. The exceptions are: Bihar, Orissa, Madhya Pradesh, Himachal Pradesh and Jammu and Kashmir for rural India; and Andhra Pradesh, Bihar, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Orissa, Tamil Nadu and Uttar Pradesh for urban India.

In comparing the two versions of taste change, based on the likelihood dominance ordering rule,[6] it would appear that Model 3 does better than Model 2. Intuitively this is because Model 3, incorporating change in the marginal budget shares, has a higher log likelihood value with fewer parameters than the model with change in the committed quantity (Model 2).

The pattern of change in taste implies a consistent switch away from cereals over time. This is more apparent in rural areas than in urban; and more evident in marginal budget shares than in the subsistence parameters (Tables 2 and 3).

For Model 3, the sign of β_2 associated with cereals is negative and statistically significant in 14 rural states. It is positive but statistically insignificant in Orissa and West Bengal. Similarly in urban areas, the sign of β_2 is negative in 13 states (but significant in 9) and is positive and insignificant in Jammu and Kashmir, Maharashtra, West Bengal.

Where taste change is postulated to occur in the committed quantities (Model 2), the evidence is less unambiguous. As summarised below, the estimated γ_2 coefficient associated with cereals is negative in the rural areas of 11 of 16 states, and in the urban areas of 13 states. In most instances, however, the estimated coefficients – whether positive or negative – are insignificant.

	Rural	Urban
Taste change in γ		
Towards cereals $\gamma_2 > 0$	Himachal Pradesh	Jammu and Kashmir
	Jammu and Kashmir	Orissa
	Madhya Pradesh	West Bengal
	Orissa	
	West Bengal	
Away from cereals $\gamma_2 < 0$	Andhra Pradesh	Andhra Pradesh
	Gujarat	Gujarat
	Bihar	Himachal Pradesh
	Haryana	Haryana
	Karnataka	Karnataka
	Kerala	Kerala
	Maharashtra	Maharashtra
	Punjab	Punjab
	Rajasthan	Rajasthan
	Tamil Nadu	Tamil Nadu
	Uttar Pradesh	Uttar Pradesh
		Bihar
		Madhya Pradesh

TABLE 3: ESTIMATED TASTE CHANGE COEFFICIENTS (FIML) – URBAN INDIA

	Cereals		Milk		Meat	
	γ_2	β_2	γ_2	β_2	γ_2	β_2
Northern						
Haryana	−0.31	−0.02	2.84	0.05	0.14	−0.004
	(0.68)	(3.00)	(1 15)	(5.18)	(1.38)	(2.62)
Himachal Pradesh	−1.26	−0.01	−4.33	0.01	−1.43	0.003
	(0 89)	(0.99)	(0.79)	(3.73)	(0.94)	(1.42)
Jammu and Kashmir	2.88	0..03	4.34	0.03	2.70	0.02
	(2.94)	(1 01)	(2.55)	(3.47)	(2.62)	(4.34)
Punjab	·0.35	−0 002	−0.99	−0 001	−0.17	−0.003
	(0.92)	(0 39)	(0.90)	(0.37)	(1.44)	(2.35)
Central						
Madhya Pradesh	−0 27	−0.03	−0.47	0 003	−0.01	0.01
	(0 52)	(4.34)	(0.45)	(0.56)	(0 03)	(4.71)
Rajasthan	−2 33	−0 01	−4.12	0.02	−0.29	0.004
	(1.85)	(2.36)	(1 37)	(4.17)	(1.13)	(4.03)
Western						
Gujarat	·0 11	−0.03	2 28	0.03	0.15	0.002
	(0 15)	(4 72)	(1.13)	(8 03)	(1.08)	(1.86)
Karnataka	−0 06	−0 02	0 29	0 003	0.19	0.01
	(0 05)	(2 68)	(0.22)	(1.20)	(0.50)	(3.15)
Maharashtra	−0 80	0 002	−1 92	0 01	−0.38	neg
	(1.12)	(0 53)	(1 19)	(4 03)	(1.03)	(0.05)
Eastern						
Bihar	−1 62	·0 02	−1.62	0.02	−0.93	0.01
	(0 60)	(2.44)	(0.44)	(4.54)	(0 52)	(2.37)
Orissa	1 43	−0 01	0.84	0 001	0.42	0.03
	(0 94)	(0 78)	(0 36)	(0 24)	(0 26)	(7.91)
West Bengal	0.67	neg	−0.70	−0.002	−0.31	0.01
	(0 39)	(0 02)	(0 26)	(0.58)	(0.12)	(3 31)
Southern						
Andhra Pradesh	−1 01	−0 02	−0.46	0.01	−0.12	0.01
	(0 98)	(3.35)	(0 49)	(2.42)	(0.33)	(2.63)
Kerala	−0.02	−0 02	−0.01	0.01	0.36	0.02
	(0 02)	(3 09)	(0.01)	(1.73)	(0.52)	(9.78)
Tamil Nadu	−0 44	·0 01	−0 16	0 001	0.03	0.002
	(0 31)	(1 90)	(0.11)	(0 75)	(0.05)	(1.34)
Uttar Pradesh	−1 26	·0 03	·3 52	−0.01	−0.61	0.003
	(1 83)	(4 28)	(1 89)	(1.76)	(1.90)	(0 28)

Note: Figures in parentheses refer to absolute values of t-ratios

TABLE 4: EXPENDITURE ELASTICITIES OF DEMAND FOR CEREALS, BY STATE

	Rural			Urban		
	With Taste Change in γ	With Taste Change in β	Without Taste Change	With Taste Change in γ	With Taste Change in β	Without Taste Change
Northern						
Haryana	0.29	0 24	0 29	0 18	0.15	0.18
Himachal Pradesh	0 42	0 38	0 42	0.18	0.17	0.18
Jammu and Kashmir	0 51	0.45	0 51	0.34	0.42	0.34
Punjab	0 27	0 22	0.26	0.23	0 23	0.23
Central						
Madhya Pradesh	0 49	0 41	0.48	0.27	0.20	0.27
Rajasthan	0 35	0 28	0 35	0.33	0.31	0.33
Western						
Gujarat	0 37	0 30	0 36	0.27	0.20	0 26
Karnataka	0 65	0.48	0.64	0.38	0 35	0.37
Maharashtra	0 48	0.35	0.48	0.27	0.29	0.27
Eastern						
Bihar	0.69	0.63	0.69	0.43	0.38	0.43
Orissa	0 56	0 56	0.57	0.25	0.24	0.26
West Bengal	0.47	0 49	0.48	0.26	0 29	0.29
Southern						
Andhra Pradesh	0 55	0.47	0.55	0.43	0.40	0 42
Kerala	0 47	0.35	0.47	0.38	0 36	0.40
Tamil Nadu	0.55	0.51	0.55	0.40	0.37	0.39
Uttar Pradesh	0.45	0.32	0.45	0.23	0.17	0.23

It is perhaps no surprise that the relatively poorer states of Orissa and West Bengal appear consistently as those in which tastes have changed in favour of cereals. In fact, the poorest consumers in eastern India have increased their cereal intake over time – thereby representing a departure from the norm of decreased (or unchanged) cereal consumption in most other regions of the country. Increased incomes in these eastern states continue to be spent on the cheapest sources of calories: the cereals.

In many instances, the decline in the preference for cereals has been accompanied by a taste change in favour of milk and milk products, and meat, eggs and fish. Once again, the evidence is more compelling in rural than urban areas, and for Model 3 than for Model 2 The results of Model 3, for instance, suggest that the coefficient associated with β_2 is positive in 13 states (both rural and urban) for milk and milk products and in 12 rural and 14 urban states for meat, eggs and fish. There is no systematic pattern to the states which exhibit a negative trend coefficient in these commodities – a variety of economic and cultural factors may be at work. Although not all the parameter values are statistically significant, they are nevertheless indicative of a changing diet composition. In particular, consumers in all but the poorest regions of the country have substituted animal sources of nutrients for cereal sources. Thus the average diet is becoming more expensive.

What are the implications of these changes in taste for income elasticities of demand? Tables 4 and 5 present statewise elasticities for two commodities. cereals and cereal substitutes; and meat, eggs and fish. For the Linear Expenditure System the expenditure elasticity is given by β_i/w_i or the marginal budget share divided by the (average) budget share, and is thus not explicitly a function of prices The average budget shares are evaluated for 1972-73, the base year, at the all-India level, to ensure uniformity across states. For Model 3, the marginal budget share is evaluated at t=5 or 1987-88 (the elasticity retains the 1972-73 average budget share). It is thus best interpreted as the elasticity that would obtain in 1987-88 were only taste change allowed to occur.

As one might expect, elasticities vary widely among the states. Consider the elasticities for the static model (without taste change). For cereals, for instance, they range from a high of 0.69 in Bihar to a low of 0.26 in Punjab in rural India; and from 0.43 in Bihar to 0.18 in Punjab and Haryana in urban India. These are consistent with the magnitudes reported in other studies at the all-India level (for instance, Radhakrishna and Ravi). As one might expect the larger elasticities tend to be associated with the poorer states in eastern India, and the lower elasticities with the richer states.

Similarly, the elasticities for meat, eggs and fish also vary widely among the regions: higher in the eastern and southern regions than in the others. In most regions, they are, as expected, greater than unity; and higher in rural than in urban areas. While the expenditure elasticities for meat, eggs and fish reported here are somewhat larger than those found in other studies, they highlight the consequences of further income growth. Because the cereals are also used as feedgrains for livestock, the indirect (or derived) demand for cereals is likely to increase much faster than the direct demand for cereals.

When taste parameters are taken into account, some interesting observations emerge. One striking finding is that despite the fact that Model 2 (where the committed quantities are function of time) has significantly higher log likelihood values than the static Model 1 in 11 of 16 states in rural India and 7 of 16 states in urban India, in practical terms, Models 1 and 2 are indistinguishable. While the statistical precision of the parameters is greater in the larger model in the 11 and seven states, respectively, the values of the parameters themselves do not show much change. The resulting expenditure elasticities of demand are virtually identical – they vary only in the second decimal place. Therefore if the interest of the analyst lies only in making demand forecasts, for example, then inclusion of taste change in the subsistence parameters does not matter much – one could just as well work with the more parsimonious model.

Of greater interest is the comparison between Models 1 and 3. In both rural and urban areas, the expenditure elasticity of demand for cereals is lower with taste change in the marginal budget share than without. The exceptions are of course states in which the changes in taste have favoured the cereals. The magnitude of the difference, however, is much larger in rural areas than in urban areas. In part this is because urban elasticities are typically lower than the rural, and in some instances are already as low as they are likely to get. For instance, in states such as Punjab, it is unlikely that the income elasticity of demand for cereals will fall much below 0.2. (In principle, it is possible for any expenditure elasticity to be driven to zero or even turn negative, but in a country such as India, a large commodity group such as the cereals and cereal substitutes is unlikely to acquire the status of an inferior good.) Analogously, expenditure elasticities for meat, eggs and fish are typically higher with taste change in the β_i than without.

Conclusions

Food demand in India has clearly been characterised by changing preferences. These shifts appear to be better characterised by time-dependent marginal budget shares than by changing subsistence parameters. This is evident not only from the expenditure elasticities but also from the log likelihood values and the likelihood dominance criterion. The changes in preference appear to be in a direction away from cereals and toward the more expensive milk, poultry

Table 5 Expenditure Elasticities of Demand for Meat, Eggs and Fish, by State

	Rural			Urban		
	With Taste Change in γ	With Taste Change in β	Without Taste Change	With Taste Change in γ	With Taste Change in β	Without Taste Change
Northern						
Haryana	0.49	0.48	0.50	0.41	0.36	0.41
Himachal Pradesh	1.52	1.48	1.52	2.42	2.51	2.41
Jammu and Kashmir	3 65	5.04	3.70	3.05	3.50	3.06
Punjab	0.95	0.75	0.97	0 96	0.88	0.94
Central						
Madhya Pradesh	1.04	1.05	1.05	1.39	1.59	1.40
Rajasthan	0.78	0 64	0.78	0.67	0.74	0.69
Western						
Gujarat	0.39	0.45	0.40	0.50	0.53	0.51
Karnataka	3.19	2.07	3.23	1 45	1.57	1.47
Maharashtra	2.42	2.53	2.41	1.37	1.38	1.39
Eastern						
Bihar	2.02	2.09	2.03	2.37	2.54	2.36
Orissa	2.97	3.36	2.98	3.11	3.68	3.11
West Bengal	5.22	5.91	5.18	4.06	4.27	4.07
Southern						
Andhra Pradesh	3.29	3.60	3.30	2.05	2.13	2.05
Kerala	3.62	4.02	3.63	2.53	2.84	2.54
Tamil Nadu	2.51	2.51	2.51	1.44	1.48	1.45
Uttar Pradesh	1.41	1.82	1.41	1.02	1.01	1.01

and meat products. This is consistent with dietary changes associated with economic growth the world over. This implies that as the pressure on the direct (per capita) demand for cereals as food eases, indirect demand will increase, as increasing meat and milk demand exerts in turn a demand for cereals as livestock feed.[7]

In addition, the results indicate that incorporating regional specificity in demand analysis matters – ignoring it may lead to aggregation biases.

The Linear Expenditure System, on which both these conclusions are based, has some limitations, such as the linearity of Engel curves. More research is necessary on alternative functional forms, and different specifications of taste change, to establish the robustness of these findings.

Notes

[This study was supported by a grant from the Project on Strategies and Financing for Human Development I am grateful to Monica Jain and Nistha Sinha for research assistance and to K L Krishna and an anonymous referee for useful comments The usual disclaimers apply]

1 Ranjan Ray and I have experimented with alternative functional forms for describing consumer behaviour in India. Our results, as yet unpublished, suggest that the linearity of Engle curves implicit in the LES is rejected by the Indian data in favour of its quadratic generalisation, the Quadratic Expenditure System Also, the monotonicity in the relationship between income and budget shares implied in the Almost Ideal Demand System is rejected in favour of the Quadratic Almost Ideal Demand System

2 There are, of course some disadvantages to using the linear time trend specification It cannot be used over long time horizons, because it implies that changes in taste continue indefinitely through time, even if prices and expenditure remain constant. Also, if prices and expenditure remain constant, eventually the value of the committed commodity can exceed total expenditure.

3 The terms income and expenditure are used interchangeably. Strictly speaking, the NSSO provides no information on incomes, only on expenditures.

4 The inclusion of Karnataka in the western region, rather than the southern region has to do with the importance of coarse cereals (in both production and consumption) in this state.

5 Although there is evidence of commodity substitutions within the cereals, it is not possible to capture them here, for lack of state-level retail price indices for rice, wheat and other cereals.

6 Formally, the dominance ordering rule compares both alternative formulations against a notional composite. Specification 1 dominates Specification 2 if and only if (Pollak and Wales):
$2^*(L2-L1) > [\chi^2(n3-n1) - \chi^2(n3-n2)]$,
where L2 and L1 are the log likelihoods of the two alternative specifications; and n1, n2 and n3 are the number of parameters in Specifications, 1, 2 and the composite.

7 There is now a substantial literature on the likely increase in the indirect demand for cereals for use as livestock feed. While demand forecasts for feed cereals vary widely, there is certainly agreement that this component of total demand for cereals is likely to increase in importance. A good discussion of the issues is contained in Sarma (1996) and the references therein

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DISCUSSION

Maxi Devaluations and Contraction

Pronab Sen

I AM deeply indebted to Ravindra H Dholakia for his most perceptive comments 'Maxi Devaluations and Cooper's Hypothesis', *EPW*, November 23) on my paper 'Cooper's Contractionary Devaluation Hypothesis: A Note', *EPW*, July 27) on two counts. First, it is always gratifying for an author to have his work read and reacted upon by someone whose views matter. Second, for pointing out the limitations on the use of infinitesimals in analysing finite changes. Most theoretical economists tend to fall into the sometimes reprehensible habit of considering ε-changes from an initial equilibrium, which requires characterisation of the relevant functional forms *only in the neighbourhood of the initial equilibrium*. This would be unexceptionable if either of two conditions are met: (a) the functions are strictly monotonic in the relevant range; or (b) the changes being contemplated can reasonably be assumed to be relatively small. If neither is met, the results arising from the use of differential calculus in the analysis become suspect.

Dholakia's basic criticism of my paper is based on the suggestion that neither of the two conditions are met in the problematic that I have considered. In the first place, he correctly points out, a 'maxi' devaluation cannot be treated as an infinitesimal, or even a small, change by definition. In the second place, he asserts that imports and home-goods cannot be assumed to be 'gross complements' – which is the necessary condition for a contractionary devaluation – over the entire range of possible exchange rates. He demonstrates (*vide* the Figure of his note) that if the 'Price Consumption Curve' (PCC) between home-goods and imports is "...a normal U-shaped PCC..." (i e, the PCC is not monotonic), then there always exists some exchange rate at which the demand for home goods will not decline relative to the initial level (point E_2 relative to point E_0 in his Figure 1). Therefore he concludes that there necessarily exists some minimum devaluation beyond which "..home goods and imports would turn out to be gross substitutes foreclosing all possibilities of contractionary devaluation as per Sen's analysis" and that "...the concept of maxi devaluation is to ensure that [this] minimum devaluation..." is effected.

He further goes on to argue that "for Sen's conclusion to hold, however, it is necessary to impose further constraints on the nature of the preference function between the home goods and the imports so that throughout the whole range, the two goods turn out to be gross complements... This is the case of abnormal demand conditions in relation to the standard Marshallian conditions of normal demand..." He qualifies this rather harsh criticism by conceding that such "abnormal demand conditions" may obtain in small island nations, but not in other developing countries in general. Thus, in his view, contractionary devaluations, at least in the Cooper sense, are at best a *curiosm*.

While I readily concede the two basic criticisms of my analysis made by Dholakia, namely, (a) maxi devaluations are by definition large; and (b) the PCC may not be strictly monotonic, I cannot accept his conclusion that 'maxi' devaluations cannot in general be contractionary "...unless

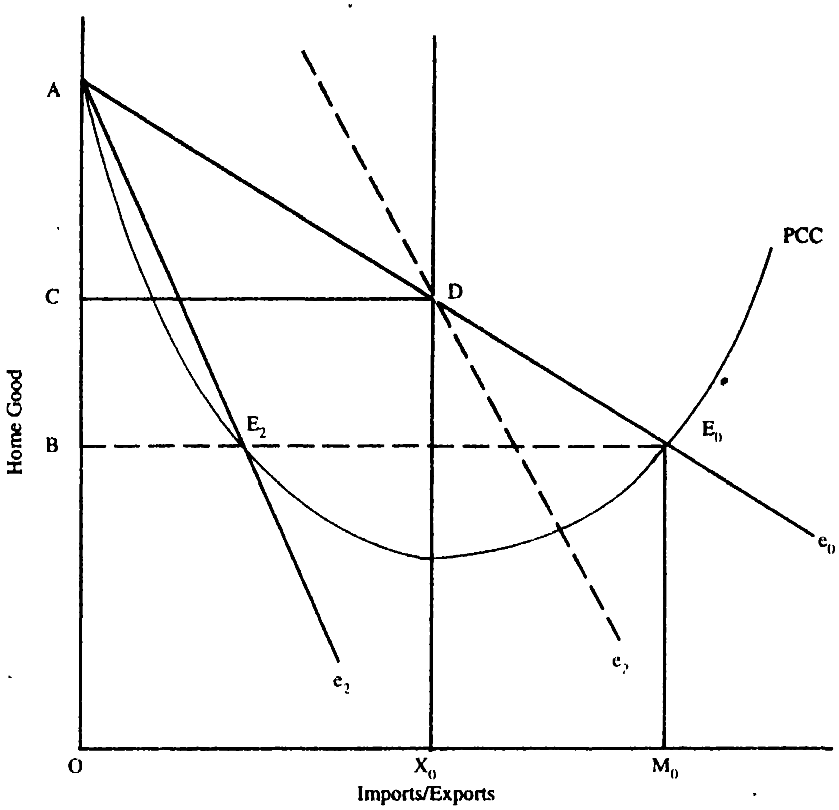
abnormal demand and supply conditions are explicitly considered". The reason for my apparent intransigence is that the analytical source of Dholakia's conclusion, namely, his Figure 1, is fundamentally incorrect or, at best, incomplete He has considered only the *price effect* of a devaluation but not its *income effect*.

In order to appreciate the point being made, consider Figure 1, which is essentially Dholakia's Figure 1 with some additions. Dholakia basically argues that any devaluation which leads to an exchange rate in excess of e_2 (i e, steeper than the line AE_2) will necessarily lead to an expansion, and that such a possibility will always exist so long as the PCC is not upward sloping in some range of the positive quadrant. This assertion is undoubtedly true provided that the implicit budget constraints (the lines AE_i) rotate around the point A. It may be noted that for this to happen it is necessary for Dholakia to assume that the *ex-ante* desired expenditure of the country measured in terms of the home good (i e, OA) must remain unchanged post-devaluation. This is clearly not correct. The desired level of expenditure for an economy with a trade deficit consists of three parts: (a) income from the home good's sector; (b) income from the export sector, and (c) desired dis-savings. It should be obvious that for a small country a devaluation will necessarily cause the income from the export sector to rise in the same proportion as the exchange rate. This factor needs to be explicitly taken into account.

In my Figure 1, the initial level of exports is shown at X_0, which is strictly less than the initial level of imports M_0, thus embodying the initial trade deficit. The total initial level of desired expenditures (OA) can now be broken up into its three constituents – OB originating from the home good's sector, BC is the desired level of dis-saving and AC originating from the export sector. Assuming that desired dis-saving is held constant in terms of the home good (which is more or less the assumption made in my paper) and there is no change in the volume of exports, a devaluation rotates the implicit budget constraint through the point D (shown by the line passing through D with slope e_2), and not through point A. It should be obvious from the diagram that the possibility of contraction will always exist if the PCC is upward sloping in the range X_0M_0, regardless of its shape in the rest of the quadrant and regardless of the magnitude of the devaluation Therefore, the possibility of contractionary devaluations as described in my paper is not incompatible with a U-shaped PCC as has been claimed by Dholakia. All that is required is that the point E_2 lies strictly to the left of X_0D.

In the interest of completeness it should be pointed out, however, that once the

FIGURE



nominal income raising effect of the devaluation is recognised, the PCC cannot be assumed to remain unchanged. The PCC will necessarily shift upwards, but the magnitude of the shift and its position relative to the original PCC are not uniquely determinable. Contraction would then depend upon the interaction between the expansionary effect of the shift in the PCC and the contractionary effect of the rotation of the implicit budget constraint. This is why gross complementarity between imports and the home good is only a necessary condition and not a sufficient one.

The simple point, however, is that Dholakia's criticism errs in assuming that for contraction to occur gross complementarity needs to obtain over the entire range between O and M_0. All that is really required is that it should hold within the more limited range between X_0 and M_0. In other words, the operative parameter in this regard is the percentage of the trade deficit relative to the level of imports. Even in an inward-oriented country like India, this proportion has rarely crossed 20 per cent, and it is usually even smaller in the more open economies of Asia, Africa and Latin America, including those which have faced serious balance of payments crises. Therefore, there is considerable scope for the preference function to exhibit 'normality' in the Dholakia sense without negating the possibility of contraction.

Dholakia has two other criticisms of my paper which are contained in his footnotes. First, he has pointed out that "...two goods can be uniquely defined as gross complements only when both the cross price elasticities are negative. This may not always occur". Therefore he criticises my recommendation that the cross-price elasticity obtained from the econometric estimation of the import demand function can serve the purpose for testing gross complementarity. Instead he suggests that the proper basis would be the cross-price elasticity with respect to import prices estimated from the demand function for home goods. Theoretically of course this is entirely correct in that in any economy with more than two goods it is always possible that the cross-price elasticities of any pair of goods may have opposite signs. However, there are two arguments in defence of my position.

First, at the theoretical level, it has been proved by W E Gorman in 1956 that consistent aggregation across individual preference functions requires that these functions should be quasi-homothetic, and that the resulting aggregate preference function would also be quasi-homothetic. Thus the aggregate demand functions obtained would generally display symmetry of the cross-price effects. This is one of the differences that arise between individual and aggregate preference functions. Second, at the empirical level, since home goods form an important component of national income, any reduced form demand function

for home goods which uses income as an argument will display strong heteroscedasticity and biased parameter estimates. These relationships can only be estimated directly from the structural equations. This problem is not faced in the case of the import demand function. Since the objective of my paper is to provide an a priori indication of the possibility of a contractionary devaluation so that an appropriate model can be devised for such cases, I feel that the approximation suggested by me may not be terribly objectionable.

Dholakia has also pointed out that it would also be necessary to estimate the export supply function in addition to the import demand function. This is obviously true. However, I again appeal to my primary objective of providing an indication as to whether a change in the basic IMF model structure becomes necessary to incorporate the possibility of contraction in order to justify not mentioning this. If the necessary condition for contraction does not obtain, there really is no need to examine the sufficient condition. On the other hand, if the necessary condition is met, the full, and hopefully revised, model structure would doubtless take care of these other aspects.

Finally, I feel it incumbent on me to warn readers that Dholakia's critique of my paper contains a serious danger that needs to be guarded against. Since it is very difficult, if not impossible, to estimate the relationship between imports and the home goods over the entire range of possible values for a number of reasons, some of which have been mentioned by Dholakia, it is entirely possible that any devaluation which is found to be contractionary in an *ex-post* sense can be considered to be insufficient by Dholakia's logic. This may then set off a chain of further devaluations in search of the elusive blue-bird of gross-substitutability which may never be found, and the country would have paid a dear price in the bargain.

'Of Bourgeois Democracy' and Indian Reality

V Subramanyam

We know single science, the science of history

–Marx.

THIS is in response to K Balagopal's rejoinder (*EPW*, January 7, 1995) to Sumanta Banerjee's 'Sangh Parivar and Democratic Rights' (*EPW*, August 21, 1993). After reading the other rejoinders (May 20 and 27, October 28, November 4, December 9, 1995 and March 30, 1996) I am tempted to write this piece. It is clear that the democratic rights movement is not above politics or distant from politics or 'neutral' between Right and Left. But the crux of the issue is whether it serves the interests of ruling class or the interests of the people. There is nothing beyond these criteria.

To understand social reality one should ponder over the historical developments that took place in several stages from slave-owning democracy to semi-feudal democracy[1] in the Indian context. Based on this premise only one can arrive at the right conclusion. But the method Balagopal employed in the entire article is nothing but a declassing, dehistoricising and depoliticising of the ideas.

While Banerjee demanded a denial of rights to the Hindutva forces (from saints to sainiks) in the context of pogroms, Balagopal de-contextualised the entire issue and went on arguing to defend his 'fresh look' in the garb of 'bourgeois democracy' and its 'institutions' and their 'limitations'. One wonders whether he is advocating the colonial legacy which is being practised by the different arms of the Indian state – legislature, executive and judiciary? He refers to Marx to strengthen his argument by quoting "...nevertheless each such right expresses a value that is as much a lasting resource of human civilisation as the steam engine that Marx was immensely impressed by". But we should remember that Marx understood the limitations of bourgeois democracy and wanted society to go beyond it

As Hal Draper[2] rightly observed:

> It is true that Marx's thinking began with the basic framework of bourgeois-democratic ideology; it is also true that this bourgeois-democrat began his career by publicly blasting the specifically bourgeois approach to democracy on the free press issue

The characteristics of the bourgeoisie that Marx brilliantly analysed, which is still relevant to the Indian political situation, is summed up by Bhikhu Parekh:[3]

> ...the bourgeoisie, although not committed to any specific form of government, generally find parliamentary democracy most conducive to their interests, at least in their early years. It enables them to control the executive and to influence its policies. It eliminates arbitrary rule, and ensures a stable orderly government. It enables the various factions of the bourgeois class to bargain and reach a compromise; at least, it prevents one of them from acquiring dominance. Finally, the parliamentary democracy enables the bourgeoisie to cloak their class-rule under the thick ideological veil of democratism. Despite all these and other advantages, the bourgeoisie's commitment to parliamentary democracy is not, however, absolute. When class-conflict develops, the bourgeoisies find parliamentary democracy a dangerous liability, and prefer a strong executive.
>
> Marx argues that the dominant class controls the state in various subtle and not so subtle ways. The state needs a steady supply of money, and this enables the dominant class to manipulate it by such means as withholding taxes, speculating on the state bonds or the national money. The dominant class also controls the state ideologically. It "absorbs the branches of labour directly belonging to the state", such as the army, the civil service, the judiciary, the executive and the legislature. The legislature for example, consists principally of the representatives of the dominant class, and has no real interest in curtailing its power When it makes laws to limit its power, it leaves 'loopholes' which the dominant class knows how to exploit. When violations of laws are reported to the judiciary, whose procedures and criteria of evidence are biased against the dominated class and where 'the masters sit in judgment on themselves' the outcome is more or less predictable. (Marx called 'ambitious professors, lawyers and similar persons' who make 'a lucrative business' of selling their services to the state, 'literary lumpen proletariat'. The dominant class also controls the 'ideological estates', such as academic, legal, journalistic and other professions.

'Oppression' and 'authoritarianism' are the words used by Balagopal in an abstract form to justify his argument[4] "...history is witness to innumerable instances where those who have fought authoritarianism that oppressed them have themselves turned authoritarian thereafter, for what they have fought is not op pression *as such* but the oppression of the other that has hurt their interests" (p 59). If the above passage refers to erstwhile socialist societies, it is not relevant to this debate. Coming to the Indian context while the 'authority' and 'oppression' rests in the hands of landlords, upper castes and classes, cunning politicians, mafia gangs and boot-licking bureaucrats and men in male-dominated society, people who are being oppressed forge their own weapons of resistance and rationalisation to dismantle the existing structures of power. In this context where does the democratic rights movement stand? It should think whether it is to align with the people or with the ruling class which protects the status quo. In a broader perspective, to think that the Indian state through its arms – legislature, executive, judiciary – provides 'democratic space' to its citizens is a myth. 'Demo cratic space' is always enjoyed by the ruling classes, which have differences of their own in the matter of grabbing power and wealth. But the masses do not really enjoy the 'democratic space' as long as the present nexus of criminal-politician-bureaucrat-industrialist continues.

Before we proceed to understand the democratic rights movement, it is precondition to know under which type of state we are being governed. Randhir Singh[4] lucidly analysed the character of the Indian state:

> It is not seen that the Indian state does not merely happen to be violent or repressive, it is inherently so, by virtue of the society it presides over; it guards and keeps going, violently if necessary, an inherently violent society because it is a society of myriad economic, social and cultural oppressions.

Generalising the entire communist movement and indicting it he affirms "And the communist parties that substituted themselves for the proletariat have made a mess of the job, *at enormous cost* (p 60), whichever way they tried, the Stalinist way, the Maoist way, the Titoist way and even the Sandinista way" (italics are mine). But in reality in the days before the revolution the Czars, big bourgeoisie and the ruling class amassed millions at the cost of poor people's obedience and passivity. And the bourgeoisie always deplore the violence, the disruption involved in any revolution They are meticulous in their calculations of the 'human cost' of revolutions. Their newspapers always make up the wildest estimates of the supposed numbers of people who are slain in the course of revolution. But they are reluctant to see the hideous tyranny of their own.

Felix Green[5] in his in-depth study observed boldly, how the 'human cost' or 'enormous cost' (in case of Balagopal) was greater when there is no revolution:

> Before China's revolution at least a million people, on average, died every year of starvation. The International Red Cross reported that every year in Shanghai alone over 20,000 bodies were picked up off the streets people who had just gone under Millions of Chinese lived so little above the biological level of survival that their bodies were permanently stunted and there was no hope for them of anything but a lifetime of sheer toil and pain. This was the 'human cost' that endless generations suffered for *not* having a revolution Today, no one starves in China, no bodies are picked up off the streets; there are no beggars, everyone has work, bodies are healthy, the expectancy of life is extended; opportunities for exercising skills and talents are open to everyone, the dark days of illiteracy are over forever. And in Cuba the same. When on one occasion I asked Mr Nehru why he did not mobilise for socially productive purposes the prodigious wealth which is still owned by the upper classes of India, he replied that this would mean struggle, violence even, and he wanted to bring about necessary reforms in a 'democratic' and 'non-violent' way. A classic bourgeois answer! But what about the violence, the unseen violence, of the huge human misery within India? What about the 5,00,000 Indian children who it is estimated die every year through lack of food? This, in the bourgeois mind, is not considered 'violence', but what is mass starvation if it is not bloodless genocide? But the bourgeoisie do not calculate the mathematics of suffering in this way.

Personal affection is different from ideological opposition. In this debate rejoinders like Vindhya's (October 28, 1995) mixed these two elements and narrated irrelevant happenings, which occurred in Andhra Pradesh. Personally, Balagopal is being admired still by everybody but in the recent past due to his ideological doldrums the opposition is growing on an ideological plane, which is quite natural. This should not be misinterpreted.

Balagopal by condemning every argument of Banerjee's in black and white, argued like a mercenary lawyer, whose object is to defeat the other's logic. In the course of his argument he has made many fraudulent generalisations. One such is "...that all the communist revolutions have achieved in this century is the discovery of a rather crude and ungainly road to capitalism or rather, neocolonial subordination – *which state India has any way reached by a more civilised route*, (italics mine) and therefore there is no reason why the naxalites should be allowed the freedom to take a lot of lives and impose upon this country an authoritarian government..." (p 58). What does he mean by 'civilised route'? Does he mean that the imperial rulers who minted millions by the blood and sweat of the toiling people were civilised? Or the Indian ruling class who are neck-deep in scandals and perpetual exploitation are running the Indian state on a 'civilised route'? In one way or the other Balagopal is defending the ruling class ideology in that statement. In the 1950s Ram Manohar Lohia[6] brought out brilliantly, how the Britishers protected through their policies the interests of the affluent minority during their regime and threw the majority into bondage and the same legacy was being followed by the Indian ruling classes.

> Two or three lakh persons grow rich every year It is only effect of Five-Year Plans and a major portion of the increased national income is siphoned off for that purpose. In my opinion (Lohia) there are 50 lakh rich people at the moment and three lakh people are becoming rich every year. During the last 12 to 15 years three lakh people have become rich. The British government functioned with the support of three lakh people and the present government is run by 50 lakh people.

When Balagopal says "struggle against oppressive social structures, and the reconstruction of society on the basis of co-operative and egalitarian relations are evidently linked not through the *dictatorship of the last victors* but through the *cultural possibilities opened up by the successive struggles* and there is no last struggle, nor a millennial victory" (italics mine) (p 60). It seems he on the one hand appears to belong to the cultural Marxist school of thought of 1920s, 1930s and the New Left of 1960s, and on the other Surrealist school, those who studied exclusively late capitalist society. But Balagopal should recognise that "Marx sought to unite theory and practice, to reconcile thought and feeling, to overcome the separation between the personal and the political, but his original emancipatory thrust had been abandoned or diluted by most of his followers, who had reduced the complexity of his thought to a crudely mechanistic economic or sociological determinism".[7] Balagopal's confusing, confounding, conflicting statements only show his penchant for journalistic writing. No thinker or theoretician or ideologue argues or abuses words in such a way and makes a mess of it.

Finally, in the era of globalisation, in which scams are the order of the day, all the governments and their institutions have imposed the rules of the game to suit their selfish ends Given this situation, the democratic rights movement also should take the side of emancipatory politics.

Notes

1 See article 'Of Semi-Feudal Democracy and Military-Bureaucratic Authoritarianism' by Amiya Kumar Bagchi (p 101) in Ashok Mitra, Subarnereka (eds), *The Truth Unites*

2 See *Karl Marx's Theory of Revolution* by Hal Draper, State and Bureaucracy (p 41), M R Press, New York.

3 See chapter 5 'Marx's Theory of the State: A Historical Perspective' by Bhiku Parekh in K Roy, Ramesh C Sarikwel (eds), *Marxian Sociology*, Vol II, Ajanta Publications

4 See the article 'Terrorism, State Terrorism and Democratic Rights' (p 79) in *Five Lectures in Marxist Mode*, Ajanta Publications

5 The chapter 'The 'Anything but Violence Hang Up' (p 250) by Felix Greene in *The Enemy, Notes on Imperialism and Revolution*, Prakash Publications, Calcutta.

6 See article 'Three Facets of my Credo', *MANKIND* monthly (p 31), June 1996, Vinayak Purohit (ed), Mumbai.

7 See the chapter 'Marxism, the New Left and the Problematic of Everyday Life' in *Marx, sFreud and the Critique of Everyday Life* by Bruce Brown, MR Press, New York, London

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Private Schooling and Equity

Official school enrolment statistics in India – on which analysts and policy-makers rely – apart from being gravely inaccurate, are seriously skewed: they exaggerate the size of the free, government-funded elementary school sector and greatly understate the size of the private fee-charging sector. The fast-growing role of unrecognised private elementary schools must not be ignored: a system where fee-levying institutions have a significant role in *elementary* education while *secondary* education is largely state-supported has perverse equity effects. 3306

Self-Respecters' Tamil

The politics of the Self-Respect Movement in Tamil Nadu around Sanskrit and Tamil may be viewed as a search for a unified language of the nation. The search was marked by new ways of interrogating and reconstituting relations of authority and subordination in Tamil society. It held out, as a consequence, possibilities of forging a broad historic bloc with the agenda of reordering the society on a democratic basis. 3323

Women's Work and National Accounts

Much of the work of women, particularly that of household women which forms the major part of household non-market production, goes unreported in the accounting framework of the System of National Accounts. How does the SNA 1993 fare in terms of capturing the activities of women in the estimation of domestic product, measuring housewives' services in the concept of Extended Net Domestic Product and estimating the share of women in Extended NDP? 3330

LNG Lobby

The current intense lobbying for basing a part of the power programme in India on liquefied natural gas (LNG) has to be seen in the context of the worldwide slow-down in demand for LNG. The over-capacities among most large producers of LNG has prompted a desperate search for new consumers and India appears to be succumbing to this international pressure. 3284

Land Alienation

The prevailing economic climate, new government incentives for agro-based investment and the fashionable discourse of environmental protection have combined to produce a wave of investment in tree plantation schemes in the rural areas of Tamil Nadu. But where are the large blocks of land for these schemes coming from? Who is giving up their lands for the benefit of these investors? 3291

Misdirected Subsidy

Electricity tariff for irrigation pumpsets has proved to be one of the most controversial issues in power sector reform. A study in Maharashtra, however, shows that the distribution of the subsidy on power tariff for irrigation is highly skewed and suggests a case for a consumption-based tariff instead of the present flat tariff as well as for a tariff hike. 3315

Victimising the Victim

Official discourse on prostitution in India reveals a disturbing ambivalence towards the practitioners of the profession, resulting in the prostitutes being further subjected to demeaning treatment at the hands of the state apparatus. 3298

Health Care and CPA

The Consumer Protection Act can effectively protect the rights of health care consumers only if the agencies set up to process grievances can be made to function efficiently. 3289

Right to Information

The Right to Information Bill drafted by the Press Council is a step in the right direction and merits close study by the media and wide public discussion. 3283

Bihar's New Rulers

The Bihar countryside has undergone tremendous change in the last three decades. The landed classes of the past have given way to a combination of groups who constitute the new ruling class. A new form of exploitation has been superimposed on the old which directly uses the state agencies to consolidate its power. 3287

India-Pakistan People's Convention

TWO-AND-A-HALF years ago some of us in India and Pakistan found ourselves in agreement that nearly five decades of strained relations between our two countries had only served to inflict severe damage to both our peoples. Economic as well as social indicators provided telling evidence that we had fallen far behind some other countries which were no better placed than ourselves to begin with. Since our respective ruling elites seemed unwilling to move out of set moulds, we felt that the only available course was for the people to assert themselves in favour of peace and friendship.

The first step that we took was a meeting in Lahore in September 1994 where the People's Forum was formally set up. It was agreed there that the political issues that had bedevilled relations between the two countries should receive prime attention. Further, it was felt that the voices of the people would carry to the decision-makers only if there was responsive democracy in both countries. Consequently, peace and democracy became interlinked in our objectives.

Two large conventions have by now been held, one in Delhi in February 1995 and the other in Lahore the following November. The 400 or so participants in these from the two countries came to unanimous conclusions on many contentious issues. For instance:
(1) There should be no resort to war. Force levels should be reduced on both sides by 25 per cent over three years, simultaneously curtailing military spending. Both sides should step back from the nuclear brink.
(2) Kashmir is not merely a territorial dispute between India and Pakistan, but concerns the lives and aspirations of the people of Jammu and Kashmir on both sides of the Line of Control. What is required is a peaceful democratic solution which involves the aforesaid people.
(3) Both countries must reduce the oppressive role of the police and the military in dealing with democratic movements, and protect the common citizens.
(4) Trade relations must be formally recognised and enhanced.
(5) Both governments must lift visa restrictions so that citizens of the two countries can travel freely.

We are well aware that this is only a beginning. Although the two conventions have helped to spread the message of peace and democracy in both countries. Regional groups on both sides have been busy organising local meetings and have received highly encouraging responses. The India chapter of the Forum held a well-attended National Conference in February 1996 in Delhi, where strategies to disseminate the conclusions of the two conventions were discussed.

The Forum is now organising a larger and longer Convention in Calcutta on December 28-31, 1996, which is expected to be attended by up to 250 delegates from each country. We expect that the forthcoming Convention will generate further support for the Forum's objectives, and hopefully influence the policies of the two governments towards peace and democracy.

Arranging the proposed Convention is going to cost a great deal of money. The Forum is a wholly non-governmental body, and is funded entirely by contributions from its members and sympathisers. Its accounts are regularly maintained and audited. We need your support and help. Please donate as generously as you feel moved to, having regard to the cause you will thereby further. Donations may be made by cheques or bank drafts drawn in favour of 'The Peace and Democracy Trust', K-14 (FF), Green Park Extension, New Delhi-110016.

Nirmal Mukharji, Manoranjan Mohanty, Kamala Prasad, Sumanta Banerjee, Syeda Saiyidain Hameed, Nirmala Deshpande, Rita Manchanda, Dinesh Mohan, Gautam Navlakha, V K Khurana, Tapan Bose, Dunu Roy, Sumit Chakravartty
Pakistan-India People's Forum for Peace and Democracy

Ambedkar and Gandhi

SUHAS PALSHIKAR's paper 'Gandhi-Ambedkar Interface' (August 3) is scholarly and provoking. An array of equally forceful arguments could be presented to rule out the question in the subtitle of his paper 'when shall the twain meet?'

Gandhi and Ambedkar should be seen in the first instance as the products of wholly different circumstances. Apart from different family and social upbringing, Gandhi was mauled by White racism in South Africa, Ambedkar by Hindu racism which he saw as divinely sanctioned. Their further development evolved on the basis of their emotional make-up and intellectual acumen. Gandhi wielded great emotional power, while Ambedkar displayed intellectual strength for which Gandhi was no match.

To cite an old example, Gandhi could not meet the case for 'Annihilation of Castes' (1936) so convincingly argued by Ambedkar, and was not able to give anything more than a feeble, evasive reply. No worthy reply has come from any of the so-called Gandhian intellectuals since then to this day.

Intellectual Ambedkar would not let him accept everything in Buddhism that he embraced. He came up with his own version 'Buddha and his Dhamma' (1957). It was denounced by purists in Buddhism, particularly the Theravada Buddhists. Gandhi did not live up to Ambedkar's Buddhism. Rajaji, a close follower of Gandhi, was so unforgiving and uncivil even at Ambedkar's demise as to remark that Ambedkar's conversion to Buddhism was more anti-Hinduism than an acceptance of the doctrine of compassion and rectitude that Buddhism was. Palshikar has studied Ambedkar's Buddhism and has made some pertinent points. For instance, he says: "... he [Ambedkar] tended to take the view that concentration of wealth and exploitation gave rise to 'dukkha'. His conception of dhamma makes it clear that Ambedkar made a distinction between material well-being and insatiable lust". It is heartening that Ambedkar is getting the attention he deserves from academic circles.

Palshikar's paper was presented at a seminar 'Gandhi's Relevance to Contemporary Theory and Politics' at the University of Pune last October. It would be interesting to know the comments of the participants at the seminar

P P LAKSHMAN

New York

Surrender at Singapore

ONCE again, despite its prior protestations to the contrary, the government of India has caved in to pressure at international economic negotiations. The Indian delegation to the Singapore WTO Ministerial Meeting has come back having conceded much that it had earlier sworn to defend, and having got virtually nothing in return. The developed industrial countries, led by the US and supported by the European Union, were successful in most of their aims in terms of pushing their own agenda, and developing countries were either bought off by side agreements (such as the Information Technology Agreement) or simply pressurised to fall into line.

The first success of the developed countries was that they were able to relegate to the background the issue that should have been the primary focus: the assessment of the functioning of the WTO thus far and the implementation of the Uruguay Round agreements. In this area, developing countries had a number of very valid concerns, because many of the hopes raised by the signing of the Uruguay Round agreements have been belied by actual experience. To begin with, the Uruguay Round was heralded by observers as marking the beginning of a massive boom in world trade. But in reality, world trade has consistently decelerated since January 1995, when the WTO was formed, despite a recovery in world output growth. In addition, despite the Agreement on Textiles and Clothing, protectionism in this sector by industrial countries has actually increased significantly since 1994. Developing countries continue to face inadequate market access for their agricultural exports despite the explicit provisions of the Uruguay Round. The skewed nature of the TRIPs agreement has reduced the scope for technological innovations in developing countries and made them dependent upon large international players. The limits put on government subsidies have conflicted with national interest especially in the matter of food security; and the numerous other constraints on domestic economic policy have severely limited the ability of developing countries to design relevant policies with any autonomy.

The final declaration did pay lip-service to some of these concerns, but it made absolutely no commitment of content and gave developing countries no grounds to believe that any of these matters would be resolved to their satisfaction. Instead, the agenda that was being pushed by the US and the EU loomed large in the actual result. This consisted almost entirely of 'new' issues, which involved a further opening of international markets, especially in developing countries, greater freedom to large capital for investment and operating decisions and also an excuse for protectionist measures through the introduction of 'core' labour standards. In addition, the US came to the conference determined to push through an agreement on information technology which it had already managed to establish in the APEC a month earlier.

In fact, pushing through this Information Technology (IT) Agreement, which will eliminate tariffs on products such as semiconductors, telecom equipment, computers and computer equipment and software products, was a significant achievement for the US, especially as it meant opening up the largest and most protected market for such goods, the European Union. This agreement was formally endorsed by 28 countries representing 85 per cent of global trade in such products, and especially by Asian exporters who account for a major share of this trade. Items of Indian export interest were not included in the pact, being judged insufficiently important globally, and the Indian delegation therefore could not be part of this agreement.

With this under their belt, the industrial countries then introduced the very issues which the developing countries, including the Asian countries and especially India, were earlier determined to resist. Thus, the "observance of core labour standards" was explicitly brought up. It is true that the statement mentions that these should not be used for protectionist purposes; nor should the comparative advantage of low-wage developing countries be put into question. But the very inclusion of this in the WTO statement at all is the thin end of the wedge in terms of allowing labour standards to influence trade policies, and will certainly become more of a weapon in subsequent negotiating rounds.

Similarly, the Singapore Declaration also incorporates the US demand for a policy on government procurement, which will militate against any preferential treatment by a government in procuring even from its own public sector enterprises *vis-a-vis* foreign suppliers. Currently this is in the form of a working group to 'study' the issue (a standard WTO euphemism for preliminary negotiations) which is likely to culminate in yet another sweeping agreement.

But the most significant defeat for developing countries, including India, relates to the inclusion of discussions on investment within the framework of the WTO. The Singapore meeting agreed (as usual, through ultimate 'consensus') to establish two working groups, one on the relationship between trade and investment and the other to study the interaction between trade and competition policy, including anti-competitive practices, "in order to identify any areas that may merit further consideration in the WTO framework". This inclusion of investment in particular, given the context of OECD negotiations over the Multilateral Agreement on Investment and the WTO's own very one-sided recent report on this matter, is dire to say the least. The Indian delegation has tried to hide from this unpleasant implication by pointing to the

escape clause, which says that future negotiations on these matters would require explicit consensus among WTO member countries. But this clause is unlikely to prevent eventual WTO assimilation of the investment issue, since the recently issued WTO report is blatantly in the interests of large capital, and it is evidently quite simple for the US and other industrial countries to push through a 'consensus' on previously unwilling nations, through a combination of carrots and sticks. As a result, the issue is now firmly on the agenda for the next WTO ministerial meeting planned for Geneva in 1998.

The poor bargaining ability of our trade negotiators does not really reflect their own inadequacies; rather it is a result of our domestic policy framework which leaves them with little alternative but that of accepting the fundamental rules of the game while trying to tinker with a few minor clauses. Unlike China, India has never been able to use the fact that it is opening up a potentially vast market for foreign capital, goods and services, to its own advantage as a measured bargaining counter. And this in turn is because this government, like its predecessor, has never considered withdrawal from the WTO as an option even as a bargaining stance, and has never tried to work out how far the WTO rules accord with a desirable pattern of development for its own people.

Yet, for the interest of India's long-run development to be truly served, the government and citizenry should be allowed to debate seriously the issue of WTO membership, weigh the advantages of being in the WTO against the costs, and to consider how best the costs can be reduced. For this to happen, the government's economic policy in turn must be oriented not towards the aspirations of a small elite, but the more basic concerns of survival and material improvement for the vast bulk of our people. The problem is not with our negotiators in Singapore. It rather lies in the conduct of our own domestic economic policy since 1991, which has unthinkingly sacrificed both national sovereignty and the possibilities of more balanced and equitable development at the false altar of a globalisation which at best benefits a small elite at the cost of the masses.

FOOD PRICES

Paying for Mismanagement

THE sharp rise in wheat prices in recent weeks has opened up the whole subject of failure of supply management, particularly with relation to foodgrains, and its consequences for the extent and nature of inflation in the economy. The deceptively moderate annual inflation rate of 6.8 per cent, as measured by the official wholesale price index, has lulled the government into thinking that it has been able to keep inflation under control. But, as is widely recognised, this is essentially a case of suppressed inflation. The administered prices of foodgrains supplied through the public distribution system, coal, fertilisers and petroleum products as well as electricity tariffs have been due for revision now for almost two years. Further, the markedly small rise in the prices of manufactured products only reflects the industrial economy sliding into a recession. Over the 12 months to November 30, while the general wholesale price index has risen by 6.8 per cent and the index for 'primary articles' by 9.2 per cent, that for 'manufactured products' has gone up by only 3.5 per cent. Even this small rise has been essentially the result of some food items in the 'manufactured products' category showing a sharp increase in prices. Thus the index for the 'food products' subgroup under manufactured products has risen by 6.1 per cent over the past year and within the subgroup, the index for grain mill products has gone up by 29.1 per cent, bakery products by 8.6 per cent and salt by 17.6 per cent. On the other hand, major industrial product groups have seen markedly moderate price increases – chemicals 3.7 per cent, cement 1 per cent, metals 2.7 per cent and machinery and machine tools 4.4 per cent – reflecting subdued demand conditions, though increase in imports may also have played a role.

The rise in the prices of 'food articles', on the other hand, has been phenomenal indeed. Over the past year the price index for 'food articles' has risen by 14.2 per cent and that for 'foodgrains' by 16.2 per cent. Among foodgrains, prices of cereals have risen by 16.2 per cent and those of pulses by 16.7 per cent. Among other food items, prices of vegetables have risen by 32.5 per cent and of fruits by 26.7 per cent. By no stretch of the imagination can this be described as a situation of stable prices or even of low inflation. Ever since the so-called economic reforms were initiated in 1991-92, price increases have been the highest in the case of mass consumption items. Between the end of March 1991 and November 30 this year, when the general wholesale price index rose by 66.2 per cent, the index for 'food articles' went up by 83.6 per cent and that for foodgrains by 87.4 per cent; within foodgrains, the index for pulses rose by 97.2 per cent. Similarly, the index for vegetables rose by 163.4 per cent, that for fruits by 74 per cent and that for the eggs, meat and fish subgroup by 102.5 per cent. Because of these large increases in the prices of basic consumption items, the rise in the consumer price indexes has been sharper than that in the general wholesale price index. While the average monthly index of wholesale prices rose by 65.3 per cent between March 1991 and September this year, the consumer price index for industrial workers rose by 71.1 per cent and that for agricultural labourers by 77.8 per cent.

The sharp rise in prices of agriculture-based basic consumption goods has occurred precisely during a period when the country has experienced almost nine consecutive years of good agricultural seasons. The explanation for this paradox is to be sought in the government's pricing, public procurement and supply management policies. In the initial years of the economic reforms, the government announced large increases in the procurement and support prices of foodgrains and also in the issue prices of foodgrains supplied through the public distribution system. This resulted in a reduction in the offtake of foodgrains from the system, though more recent increases in procurement prices have not been accompanied by increases in issue prices. Also, as a result of higher procurement prices and the reduced offtake, food stocks with the public procurement agencies shot up, to a peak level of 37.5 mn tonnes in May 1995. But, as the behaviour of food prices shows, the benefit of high agricultural growth and large public stocks of food has not gone to the consumers, thanks to the government's supply management policies.

There are four elements in the government's supply management policies which are a departure from the past and which have contributed to the uptrend in the prices of foodgrains in particular and of food items in general. First, in September 1993 the government adopted the policy of selling rice and wheat from its stocks in the open market with the twin objectives of disposing of a part of its stocks which was deemed to be surplus and checking the rise in the open market prices. The government had claimed, in the new language of the reforms, that it was performing "its market intervention function to moderate supply side effects on inflation". The basic purpose of the public distribution system to enhance food security and ensure stability in food prices was deliberately diluted in favour of enlarging the space available to private grain traders for their operations. Likewise, the goal of generating employment by using the stocks of foodgrains has been virtually forgotten. Simultaneously, as a result of the sharp increases effected in issue prices, there has been a narrowing of the difference between prices under the public distribution system and those prevailing in the market. While improved market supply due to higher output may have played a part in reducing the offtake from the public distribution system, the larger availability in the market was generally at higher prices and so its role is likely to have been small. The government generally allocated 11-12 mn tonnes of rice and 9-10 mn tonnes of wheat annually for distribution

through the public distribution system. In the years from 1990-91 to 1992-93, the actual offtake ranged from 7 to 8.8 mn tonnes of wheat and 7.9 to 10 mn tonnes of rice – generally over 80 per cent of the allocation. In the next three years from 1993-94 to 1995-96, the offtake of wheat came down sharply to below 50 per cent of the allocation and of rice to a little over 60 per cent – that is, about 5 to 6 mn tonnes of wheat and 7 to 8 mn tonnes of rice. On the other hand, the government has sold since September 1993 over 12 mn tonnes of wheat and 2 mn tonnes of rice from its stocks in the open market.

Second, the government permitted export of wheat and rice. As rice export was put under open general licence (OGL) and restrictions on quantities and prices were removed, actual export in 1995-96 (October-September) at 5.51 mn tonnes turned out to be far above the target of 2.5 mn tonnes. In wheat, 2.5 mn tonnes of non-durum wheat and 0.5 mn tonnes of durum wheat were authorised for export in 1995-96 (April-March) and the export period has just been extended to June 1996. Exports and free market sales have contributed to a drastic reduction in the stocks of foodgrains with the public procurement agencies. Total stocks stood at 19.7 mn tonnes at the end of September this year, a good 10 mn tonnes lower than the level (29.95 mn tonnes) a year ago. What is more, while the stock of rice at 9.34 mn tonnes is barely equal to the minimum norm of 9.2 mn tonnes prescribed for the period, the stock of wheat at 10.36 mn tonnes is well below the prescribed norm (13.1 mn tonnes). Even so, there is tremendous pressure on the government to remove the ceiling of 1 mn tonnes on wheat exports in 1996-97 (April-March). The Agricultural and Processed Food Products Export Development Authority (APEDA) has described the present quantitative restrictions on wheat exports as a case of muddled policy, while the Roller Flour Millers' Federation has sought a ban on wheat exports and appealed to the government to encourage export of so-called value added products. That traders are determined to mop up available surpluses and also export wheat on a larger scale is evident from the fact that against the permitted quota of 1 mn tonnes for 1996-97, applications for export of 4.6 mn tonnes are known to have already been made so far. And as a result of the encouragement given to traders, procurement of wheat in the 1996-97 marketing season (April-March) so far at 8.18 mn tonnes has been a third lower than the procurement of 12.32 mn tonnes in the corresponding period of 1995-96. The fall in procurement is much sharper than the reduction of 3.1 mn tonnes in wheat production, from 65.3 mn tonnes in 1994-95 to 62.2 mn tonnes in 1995-96.

Third, the government took a policy decision in September 1994 not to enforce monitoring of stock limits under the Essential Commodities Act which has been seen as a sort of green signal to private traders to increase their speculative hoarding. Some state governments have sought in panic the centre's permission to enforce the stock limits and now at last the union agriculture ministry has ordered an in-house enquiry into the cornering of a large quantity of wheat released by the FCI in the past three months by traders.

Finally, speculative tendencies have been further spurred by the RBI's latest decision to exempt all commodities, other than controlled sugar, from selective credit controls effective from October 21. According to the RBI's perception, this was necessitated by what it called a favourable supply situation. Before the ink was dry on the RBI's policy pronouncement, the government has been forced to take a decision to import 2 mn tonnes of wheat and also allow roller flour mills to import wheat freely to meet their requirements.

The transformation of the wheat supply situation from one of 'excess' stocks to one of shortage and imports despite high levels of output for many years does not augur well for food security in the country. Under the impulse of economic liberalisation, rich peasants and foodgrain traders have enormously enhanced their clout and the government's feeble efforts at so-called market intervention through open market sale of foodgrains from its stocks and through imports are likely to prove inadequate for thwarting their manipulations. Wheat prices are already up by nearly 40 per cent between November 1995 and November this year for the 'deshi' variety and by about 58 per cent for the Hapur market farm variety, which can only be explained by speculative hoarding by traders. The government does not appear to have formulated any worthwhile response to cope with the immediate and longer-term implications of the development. Immediately, the gap between the required minimum norm and actual wheat stocks with the public procurement agencies is sure to widen with its implications for further price rise. With international prices of wheat also rising, plans of importing the grain on a significant scale may not succeed. This situation has serious long-term implications because in many parts of the country wheat has been extensively substituted for coarse cereals whose output has dwindled quite markedly. Total coarse grain output has declined from 36.6 mn tonnes out of a total foodgrains output of 179.5 mn tonnes in 1992-93 to 30 mn tonnes out of a total output of 185 mn tonnes in 1995-96. The country, it appears, has been pushed into another spell of food shortages and high inflation by the government's ideological whims and fancies.

POLITICS

Season of Change

WITH the trooping in of the prodigals, one by one, back into the Congress fold, one hears on the capital's grapevine that Congress president Sitaram Kesri may feel emboldened to repeat the performance of his illustrious predecessor, Indira Gandhi, who at the opportune moment pulled the rug of support from under the feet of the non-Congress minority government of Charan Singh at the centre and bounced back to power.

Meanwhile, within the ruling United Front, rumblings of discontent are threatening to explode into a crisis. The Left partners, who expected the Front to, at the least, set an example by providing a clean leadership, are discovering to their chagrin that their allies like Mulayam Singh Yadav and Laloo Yadav are no less tainted than the Congress politicians. While they are gradually distancing themselves from these disreputable and unscrupulous characters, the latter are also feeling insecure in the United Front, what with the CBI inquiries and other allegations mounting against them. Knowing the mercurial nature of Laloo Yadav, one should not be surprised if he shifts his loyalty to Kesri – given the rapport between the two in the state politics of Bihar – in order to escape prosecution by the Deve Gowda government for the fodder scam. At the moment, he has more to fear from Deve Gowda than Kesri and may not hesitate to put in his little bit to topple the government at the centre, in exchange of protection from a future Congress government.

The configuration of the political stars therefore seems to favour Kesri. Within the party, Narasimha Rao and his followers, humbled by their defeat at the recent Congress parliamentary party executive elections, are in the dumps. The return of the old Congress leaders will increase the party's strength in the Lok Sabha to 142 and may also attract soon the Tamil Maanila Congress of G K Moopanar. While the United Front is bumbling along the road of its Common Minimum Programme, the main rival BJP is also in a bad shape, riven with dissensions and disgraced by allegations of corruption. It is against this background that Kesri is trying to revamp the Congress organisation by bringing in new people at the helm (like a young leader to head the Youth Congress) and giving it a 'clean' image, and preparing for the final push.

But Kesri's plans may go awry. For one thing, unlike past occasions when the Congress toppled non-Congress governments, the party is today no longer bound together by the dynastic unipolar Indira-Rajiv leadership. This time, the party is going to face a multipolar contest on the leadership issue. The return of people like N D Tiwari,

Arjun Singh, Madhavrao Scindia and others to the party may boost the morale of the Kesri-led Congress organisation, but is a threat to the personal ambitions of Kesri, Sharad Pawar and other old-timers who had remained with the party and will not have to contest with these veterans for positions of power – the few coveted posts such as those of the prime minister, the Congress president and the leader of the Congress parliamentary party. All they have in common is their opposition to Narasimha Rao. But if they push the anti-Rao stance too far, it may again split the organisation.

Besides, the present prime minister may prove to be a match for Kesri, both being wily politicians having graduated from the common school of skulduggery sans ideology that had emerged in post-independence Indian politics. Deve Gowda can beat Kesri at his own game. Being prime minister, he can still selectively wield the axe of the CBI against his opponents. The cabal surrounding Kesri, notwithstanding the pretension to a 'clean' image, may not be totally immune to allegations of involvement in one scam or the other, given the reputation of Congress politicians.

In this context, the Swiss court's clearance of the Bofors papers (allowing their transfer to Indian investigators inquiring into the allegation of bribes paid by Bofors to Indian politicians for the 1986 gun deal) can be a shot in the arm of Deve Gowda – of course, if he wants to make use of the possible disclosures contained in those papers. The Bofors documents, it is an open secret, implicate Ottavio Quattrocchi, a close friend of the Gandhi family at Delhi's 10 Janpath. If further disclosures confirm the family's involvement, as suggested by circumstantial evidence, it may reduce the clout that Sonia Gandhi continues to enjoy in Congress politics from behind the scenes and the lung-power of her camp-followers inside the party.

HEALTH CARE

Irrelevant Labels

LAST week a corporate hospital proudly announced that it had received ISO certification, the first for any hospital in India and among the first in Asia. The certification means that the hospital is able to deliver a uniform standard of service; it is a certificate of quality assurance. Presumably such certification is awarded on the basis of a code or set of minimum requirements evolved for the medicare industry. The certification therefore provides a guarantee of delivering a uniform quality of the services it professes to deliver to all those who buy those services. In other words, if consumers are shopping around for a service/product then the certification helps them to make a choice. But this is possible only if there are competing establishments offering/selling the same service/product; two, if there is no severe time constraint; and, three, if the consumers has sufficient resources to ensure that their is not restricted.

Clearly none of this obtains for the vast majority of Indian consumers of health care. It is well documented that hospitals and medicare institutions are a sort of last resort, not just to the poor but even the urban middle class. Financial resources are a severe constraint And given this, the choice of establishments is extremely limited. Sections of the population which have any chance at all of raising the required resources opt for private hospitals, usually the closest, or those where a doctor or a nurse is known to the consumer or which are otherwise recommended. Those who are too poor to do this go to the public hospitals. But then corporate or large 'charity' hospitals are not meant for these sections of the population. However, such an accreditation is useful for attracting consumers in an international market – from west Asia, some African countries, even east Asia and, it is hoped, the former Soviet countries. And clearly the expanding corporate health sector in India cannot survive without accessing this market.

There is also the issue of the basis on which an ISO accre-ditation is granted to a hospital/medical institution. Is it on the basis of efficiency and sophistication and the high technology of the equipment used? Is it the qualification of the medical staff? Is it the patient luxuries offered in the wards? Is it the number of complicated cases they have handled? Or is it the 'cure-rate' if one might call it that, of the patients, the number of ill people it has made well? Is it the bed occupancy ratio? Is it the patient comfort services? Is it the patient information services offered, the record keeping, the degree of patient friendliness?

It is not that standards certification is irrelevant. In fact over the years some professional groups have attempted to evolve an accreditation system for hospitals. Such systems exist in many western countries and in each it is professional groups which have evolved and implemented them initially. Closely associated with them have also been private insurance institutions. In India, the medical profession has not arrived at a point where intra-professional competition has been blunted to the extent of realising the advantages of self-regulation. This is unfortunately a feature of the colonial bind in which the medical profession in the subcontinent is trapped. A different move towards instituting an accreditation system for hospitals has been suggested by people's health groups where the central focus is patient comfort. It has also been argued that with consumer courts becoming functional and medical cases being allowed under the COPRA, some sort of standardisation of services is imperative. This can happen if the profession can actively reassert its identity and its chief concern, the patient and the provision of health care, and it can work with people's movements in health.

CURRENT STATISTICS

EPW RESEARCH FOUNDATION

In the OECD countries, apart from significant increases in unemployment rates since the mid-1980s, there have occurred noticeable changes in the profiles of employment and unemployment. Part-time employment has risen both among men and women. While women still account for a preponderant part (generally over 70 per cent) of part-time employment, the share of men has been rising. In self-employment (both sexes), the levels and trends differ among countries. Long-term unemployment rates also show wide differences (ranging from 12 to 59 per cent). Unemployment rates for women are generally lower than for men and this holds for youth unemployment rates as well.

Macroeconomic Indicators

Index Numbers of Wholesale Prices (1981-82 = 100)	Weights	Nov 30, 1996	Variation (Per Cent): Point-to-Point: Over Month	Over 12 Months: Latest	Over 12 Months: Previous	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
All Commodities	100.0	318.8	0.1	6.8	7.1	6.4	4.7	5.0	10.4	10.8	7.0
Primary Articles	32.3	335.3	0 3	9.2	7.0	8.9	5.2	5.4	12.7	11.5	3.0
Food Articles	17.4	387.0	1.1	14.2	7 4	12.3	8 0	9.8	11.9	4.4	5.4
Non-Food Articles	10 1	331 4	−1.0	1.9	6.6	4 4	0.5	−1.9	15.5	24.9	−1.4
Fuel, Power, Light and Lubricants	10 7	332.9	0.9	17.1	1.1	12.8	−0.1	3.7	2.4	13.1	15.2
Manufactured Products	57 0	306.8	−0.3	3 5	8.3	3.8	5.3	5 0	10.7	9.9	7.9
Food Products	10.1	399 3	−2.0	6 1	2.7	10 6	3.5	−0.7	8.1	12.3	6.8
Food Index (computed)	27.5	354 8	0 1	11 6	5.8	11.7	6 5	6.3	10.6	7.0	5.8
All Commodities (Average Basis) (April 6-November 30, 1996)	100.0	311 7	–	5 5	9.7	5.8	8.9	7.8	10.9	8.3	10.1

Cost of Living Indices	Latest Month	Variation (Per Cent): Point-to-Point: Over Month	Over 12 Months: Latest	Over 12 Months: Previous	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
Industrial Workers (1982=100)	346[10]	0.6	8.5	10 4	8.5	8.9	8.9	9.7	9.9	6.1
Urban Non-Man Emp (1984-85=100) (for 1995-96)	264[11]	0.4	10.0	9 1	8.2	8.1	–	9.9	8.3	6.8
Agri Lab (1986-87=100) (Link factor 5 89)	259[9]	1 2	7.9	13 2	9 3	8.6	7.2	11.1	11.2	0.6

Money and Banking (Rs crore)	Nov 22, 1996	Variation: Over Month	Fiscal Year so far: 1996-97	Fiscal Year so far: 1995-96	1995-96	1994-95	1993-94
Money Supply (M_3)	653987	7438 (1 2)	52151 (8 7)	31609 (5.9)	70410 (13.2)	79241 (17 5)	73307 (19.3)
Currency with Public	128955	5409 (4 4)	10794 (9 1)	11549 (11.5)	17480 (17 4)	18698 (22 8)	14170 (20.9)
Deposits with Banks	518620	2920 (0.6)	38285 (8.0)	25021 (5 9)	52973 (12.4)	59685 (16 2)	57925 (18.7)
Net Bank Credit to Govt	281013	4053 (1 5)	23602 (9 2)	22727 (10.2)	34991 (15 7)	16328 (7.9)	28855 (16.3)
Bank Credit to Comml Sector	348442	1594 (0 5)	7540 (2 2)	21042 (7 2)	48179 (16.5)	48059 (19.6)	17161 (7.5)
Net Foreign Exchange Assets	88365	1823 (2.1)	11209 (14 5)	−98 (−0 1)	−628 (−0.8)	25159 (47.8)	27674 (110.9)
Reserve Money	190619	1292 (0 7)	−3717 (−1.9)	5988 (3.5)	25054 (14 8)	30611 (22.1)	27892 (25 2)
Net RBI Credit to Centre	126238	1209 (1.0)	7470 (6.3)	14372 (14.5)	19855 (20.1)	2130 (2 2)	260 (0.3)
Ad hoc Treasury Bills (Nov 29)	35940	855	6495	12100	5965	1750	6300
Scheduled Commercial Banks							
Deposits	464925	1767 (0 4)	31105 (7 2)	13386 (3 5)	46961 (12.1)	53629 (16 1)	52144 (18.6)
Advances	256493	1237 (0 5)	2478 (1 0)	18014 (8.5)	42455 (20.1)	40638 (23.8)	11566 (7.3)
Non-Food Advances	247319	812 (0.3)	3095 (1 3)	17639 (8.9)	44938 (22.5)	37798 (23.4)	8875 (5.8)
Investments	180539	2272 (1 3)	15756 (9.6)	10421 (7.0)	15529 (10 4)	14171 (10.5)	28641 (26.9)

Index Numbers of Industrial Production (1980-81=100)	Weights	July 1996	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	Fiscal Year Averages: 1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
General Index	100 0	285.1	283 1(9 3)	259 1(12 3)	284.3(12 1)	253.7(9.4)	232.0(6.0)	218.9(2.3)	213 9(0.6)	212.6(8.2)
Mining and Quarrying	11 5	243 0	247.7(1 8)	243 4(15 4)	265 9(6.9)	248 8(7 5)	231 5(3.5)	223 7(0.6)	222.5(0 6)	221.2(4.5)
Manufacturing	77 1	282 8	279 3(11 7)	250 1(11 9)	278 8(13 6)	245.4(9 8)	223 5(6.1)	210.7(2.2)	206.2(−0.8)	207.8(9.0)
Electricity	11 4	343 0	344 1(2 5)	335.8(12 5)	340 3(8 2)	314.6(8.5)	290 0(7.4)	269 9(5.0)	257.0(8.5)	236.8(7.8)

Capital Market	Dec 13, 1996	Month Ago	Year Ago	1996-97 So Far: Trough	1996-97 So Far: Peak	1995-96: Trough	1995-96: Peak	End of Fiscal Year: 1995-96	1994-95	1993-94
BSE Sensitive Index (1978-79=100)	2881(−9 8)	3126	3194(−20.6)	2745	4069	2826	3584	3367(3.3)	3261(−13.7)	3779(65.7)
BSE 100 (1983-84=100)@	1274(−12 8)	1394	1461(−24.1)	1217	1843	1304	1691	1549(−3 5)	1606(−12.2)	1830(79.2)
BSE-200 (1989-90=100)	286(−10 9)	308	321(−30.1)	273	413	289	385	345 (−6.3)	368(−18.2)	450(92.3)
NSE (Nov 3, 1995=1000)	825	897	-	788	1196	na	na	na	na	na
Skindia GDR Index (Apr 15, 1994=100)	53.9(−14.0)	60 5	62.7(−37.6)	51 6	90.0	61.6	87.9	78.5(0 7)	78.0	na

@ Renamed index since Oct 14, 1996, compared with the earlier National Index (1983-84=100)

Foreign Trade	October 1996	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93	1991-92
Exports: Rs crore	9542	66665 (19 8)	55635 (24.7)	106465 (28.8)	82674 (18.5)	69751 (29.9)	53688 (21.9)	44042 (35.3)
US $ mn	2677	18896 (9.1)	17316 (21.7)	31831 (20.9)	26331 (18.4)	22238 (20.0)	18537 (3.8)	17866 (−1.5)
Imports: Rs crore	11007	74687 (15.2)	64837 (32.1)	121647 (35.2)	89971 (23.1)	73101 (15.3)	63375 (32.4)	47851 (10.8)
US $ mn	3088	21170 (4.9)	20180 (29.0)	36370 (26.9)	28654 (22.9)	23306 (6.5)	21882 (12.7)	19411 (−19.4)
Non-POL US $ mn	2290	15954 (−3.4)	16524 (32.2)	28822 (26.8)	22727 (29.5)	17552 (11.2)	15782 (12.3)	14047 (−22.2)
Balance of Trade. Rs crore	−1465	−8022	−9202	−15182	−7297	−3350	−9686	−3809
US $ mn	−411	−2274	−2863	−4539	−2324	−1068	−3345	−1545

Foreign Exchange Reserves (excluding gold)	Dec 6, 1996	Dec 8, 1995	Mar 31, 1996	Variation Over: Month Ago	Year Ago	Fiscal Year So Far: 1996-97	Fiscal Year So Far: 1995-96	1995-96	1994-95	1993-94	1992-93
Rs crore	69886	60388	58726	526	9498	11160	−5640	−7302	18402	27430	5385
US $ mn	19559	17301	17126	173	2258	2433	−3515	−3690	5640	8724	731

Notes: (i) Superscript numeral denotes month to which figure relates, e g, superscript 9 stands for September. (ii) Figures in brackets are percentage variations over the period specified or over the comparable period of the previous year. na = not available.

OECD Countries: Employment and Unemployment Profiles

Member Country	Total Labour Force: Thousands 1994	Total Labour Force: Change since 1984 Per Cent	Total Labour Force: Female Participation Rate Per Cent		Part-Time Employment as Per Cent of Total Employment: Both Sexes		Part-Time Employment: Women		Part-Time Employment: Men		Female Part-time Employment as Per Cent of Total Part-time Employment		Self-Employment Per Cent of Total Employment	
			1994	1984	1994	1984	1994	1984	1994	1984	1994	1984	1994	1984
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Australia	8,681	23.0	62.3	52.7	24.4	17.7	42.6	36.8	10.9	6.1	74.2	78.6	15.3	15.6
Austria	3,876	15.3	62.1	51.5	10.0	6.9	22.8	15.9	1.6	1.3	90.2	88.3	10.4	15.3
Belgium	4,237	2.8	54.1	48.3	12.8	8.0	28.3	20.3	2.5	1.5	88.1	88.1	14.5	13.7
Canada	14,905	15.3	67.8	63.5	17.0	15.3	26.1	25.7	9.5	7.6	69.4	71.1	10.5	9.3
Denmark	2,777	2.1	73.8	73.8	23.3	21.1	37.4	36.7	11.0	8.3	74.9	78.4	8.5	10.4
Finland	2,502	-2.8	69.9	72.9	8.6	8.3	11.2	12.5	6.1	4.4	63.2	72.0	14.7	14.1
France	25,213	6.3	59.0	54.3	14.9	10.2	27.8	21.1	4.6	2.7	82.7	84.2	12.3	16.2
Germany	39,646	7.7	61.8	52.3	15.1	12.3	32.0	28.6	2.9	2.1	88.6	89.8	9.2	8.9
Greece	4,193	8.4	43.8	40.4	4.9	4.9	8.0	9.0	3.2	2.9	58.9	60.5	34.4	35.8
Iceland	145	22.9	80.0	62.7	27.3	.	47.5	..	9.9	..	80.4	..	16.7	12.7
Ireland	1,397	6.9	46.1	37.8	10.8	6.0	21.3	13.9	4.8	2.5	71.7	71.3	21.7	21.3
Italy	22,787	-1.2	43.3	40.3	6.2	5.5	12.4	10.2	2.8	3.2	71.1	59.8	26.1	24.2
Japan	66,450	12.1	62.1	57.2	21.4	16.4	35.7	30.3	11.4	7.3	67.5	73.3	12.3	15.9
Luxemburg	165	3.1	44.7	41.6	7.3	5.8	18.3	14.9	1.0	1.2	91.2	85.7	10.6	12.3
Mexico	33,606	..	40.0	..	26.5	..	38.9	..	20.8	.	46.1	.	31.7	..
Netherlands	7,184	24.4	57.4	40.7	36.4	22.7	66.0	51.6	16.1	7.7	73.8	77.5	11.0	11.9
New Zealand	1,708	24.6	65.0	46.0	21.6	15.9	36.6	32.0	9.7	5.3	74.9	79.8	20.0	.
Norway	2,131	5.8	70.8	65.5	26.5	29.1	46.6	53.7	9.4	11.4	80.8	77.3	9.0	10.2
Portugal	4,769	5.3	62.2	56.0	8.0	6.0	12.1	10.0	4.7	3.4	67.1	65.8	25.5	32.5
Spain	15,701	12.9	44.1	33.2	6.9	5.8	15.2	13.9	2.6	2.4	74.9	71.5	21.9	23.5
Sweden	4,266	-2.8	74.4	77.3	24.9	24.6	41.0	45.2	9.7	6.2	80.1	86.7	10.6	7.3
Switzerland	3,934	19.7	67.6	55.2	28.9	.	55.4		8.8		82.7	.	10.2	.
Turkey	21,903	19.9	33.7	.	24.8		40.4	..	17.9	..	50.2	.	34.5	..
United Kingdom	28,179	5.9	65.3	57.2	23.8	20.9	44.4	44.3	7.1	4.3	83.6	88.0	12.7	9.5
United States	132,474	15.0	70.5	62.8	18.9	17.6	27.5	27.1	11.5	10.2	67.2	67.4	8.7	8.9

Member Country	Unemployment Rates: Both Sexes Per Cent of Total Labour Force		Unemployment Rates: Women Per Cent of Total Female Labour Force		Unemployment Rates: Men Per Cent of Total Male Labour Force		Long-term Unemployment (12 months or more) Per Cent of Total Unemployment		Youth Unemployment Rates (under 25) Per Cent of Youth Labour Force: Women		Youth Unemployment Rates: Men	
	1994	1984	1994	1984	1994	1984	1994	1984	1994	1984	1994	1984
	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Australia	10.8	9.8	10.0	9.9	11.4	9.8	36.4	31.2	15.7	14.3	16.7	17.3
Austria	3.6	3.8	4.0	3.6	3.3	3.9	.	..	..	.	..	..
Belgium	10.3	11.9	14.2	17.0	7.4	8.7	58.3	67.6	23.4	30.3	20.5	20.5
Canada	10.3	11.2	9.8	11.3	10.7	11.1	12.5	7.9	14.3	16.0	18.5	19.3
Denmark	8.0	8.5	9.0	9.6	7.1	7.6	32.1	33.0	10.2	15.7	10.2	12.4
Finland	18.2	5.2	16.7	5.0	19.5	5.3	30.6	22.3	30.1	10.3	31.4	9.3
France	11.5	8.3	13.7	11.2	9.8	6.3	38.3	42.3	31.6	30.4	24.2	19.6
Germany	8.4	7.9	9.9	8.8	7.2	7.3	44.3	44.5	8.4	11.0	9.4	9.5
Greece	9.6	8.1	14.9	12.2	6.5	6.0	50.5	37.5	36.9	31.9	19.8	17.4
Iceland	5.3	1.3	5.6	.	4.9	..	..	..	..	..	..	..
Ireland	15.7	14.0	15.8	11.1	15.6	15.3	59.1	45.9	23.0	18.3	27.0	26.1
Italy	10.8	9.3	15.1	15.3	8.3	6.2	61.5	63.8	36.5	40.1	29.1	26.8
Japan	2.9	2.7	3.0	2.8	2.8	2.7	17.5	15.1	5.3	5.0	5.6	4.9
Luxemburg	1.6	1.2	2.0	1.3	1.1	0.8	29.3	36.8	9.4	24.1	10.9	26.3
Mexico	3.5	..	4.6		3.0	..	..	..	5.5		3.8	..
Netherlands	6.8	11.9	8.1	14.0	6.0	10.9	49.4	59.4	7.2	5.8	8.5	5.3
New Zealand	8.1	5.7	7.8	6.4	8.4	5.3	32.2	6.3	14.3	7.9	15.6	7.9
Norway	6.0	3.4	5.2	3.8	6.6	3.2	28.9	11.7	9.4	7.9	11.2	7.4
Portugal	6.9	8.4	8.0	12.2	6.1	5.8	43.4	53.7	16.8	25.9	12.1	14.4
Spain	23.8	19.7	31.2	22.8	19.5	18.4	56.1	53.7	50.1	48.2	37.4	37.9
Sweden	8.0	3.1	6.7	3.3	9.1	3.0	17.3	12.4	14.3	6.2	18.9	5.9
Switzerland	3.8	0.9	4.8	0.9	3.2	0.9	27.6	..	5.9	..	5.5	..
Turkey	7.9	7.4	7.7	..	8.1	..	..	..	..	..	..	..
United Kingdom	10.2	11.2	5.4	8.0	13.9	13.3	45.4	46.3	12.6	18.2	19.1	20.9
United States	6.0	7.4	6.0	7.6	6.1	7.2	12.2	12.3	11.6	13.3	13.2	14.4

Source: *OECD in Figures* (1996 Edition), Supplement to the OECD Observer. Data for Czech Republic are not provided therein.

BHARAT FORGE

New Projects

WITH the resurgence in demand for medium and heavy commercial vehicles, Bharat Forge, the flagship of the Kalyani group, has performed well during 1995-96 with its net profit almost doubling from the previous year's level. The company is the largest forging company in Asia and a majority of its products cater to the automobile industry.

The company's net sales increased by 42.1 per cent over the previous year, while value of production increased by 37.7 per cent over the same period. With a lower rise in operating expenses, following cost reduction and a continuous quality improvement programme, the company managed to boost its operating profit by 50.8 per cent over the previous year During the last three years, the company has approached the capital market twice. This has helped it to reduce its dependence on term loans thus effectively limiting the increase in interest burden Interest charges rose by a lower 28 8 per cent during the year and a mere 6.3 per cent rise in depreciation coupled with a zero income tax provision (1994-95, nil), helped the company to post a smart rise in net profit during the year under review. Exports too increased significantly by 80 per cent to Rs 48 9 crore Although imports increased sharply by 152 5 per cent over the previous year, the company continued to be a net foreign exchange earner. With the sharp rise in net profit, earnings per share improved from Rs 8 8 per share last year to Rs 12 6 per share while the company's book value rose from Rs 81 6 per share to Rs 101.5 per share.

During the year under review, the company's financial services division reaped the rewards of a tight liquidity situation as a result of the cash rich position of the company. The company also transferred its wheel rim division on 'a going-concern' basis to Kalyani Lemmerz, a joint venture with Lemmerz Holding GmBH, Germany

The company is setting up a plant for the manufacture of finish machined crankshafts in Pune. The project, which is estimated to cost Rs 76 crore, is expected to commence commercial production during the second quarter of 1997. By the turn of the century, the company plans to more than double its installed capacity to 1.5 lakh tonnes per annum and achieve a revenue target of around Rs 1,000 crore. The company has diversified into connecting rods and has entered into a tie-up with its technical collaborator, Federal Forge of US, for a 50 per cent buy-back arrangement for three lakh pieces. The project is expected to be a major revenue earner for the company in the years to come.

The company has also entered into technical know-how and assistance agreements with Metalart Corporation, Japan and Nissho Iwai Corporation, Japan for the manufacture of small precision forgings. With a view to de-emphasising the presence of consumer electronics in the company's investment portfolio, Bharat Forge has reached an understanding with Sharp Corporation under which the latter increased its stake in Kalyani Sharp to 51 per cent, thus reducing Bharat Forge's holding from 40 per cent to 29 per cent.

During the year, the company allotted 15,68,600 equity shares of Rs 10 each at a premium of Rs 186.93 per share to its senior executives; 29,26,450 equity shares of Rs 10 each at a premium of Rs 40 per share on conversion of coupon warrants attached to 'Tenth Series' debentures, and 18,00,000 equity shares of Rs 10 each at a premium of Rs 107.18 per share to the promoter group. With this, its total equity share capital rose from Rs 27 9 crore last year to Rs 125 9 crore on March 31, 1996 Further, it also issued redeemable non-convertible cumulative preference shares of Rs 10 each at par on private placement basis

The company's share price currently rules around Rs 77 75 on the bourses discounting its 1995-96 earnings per share 6 2 times

KIRLOSKAR OIL ENGINES

Strong Brand Equity

Kirloskar Oil Engines, a Kirloskar group company, is engaged in the manufacture of engines between 3 HP and 650 HP, 'R' type engines, bimetal bearings, engines valves, bimetal strips, diesel engines above 250 HP (in cylinders), assembly of generating sets in the range of 0 5 kVA to 10,000 kVA, camshafts, steam turbine generating sets up to 60 MW and machinery for forming foundry moulds of sands

In 1995-96 the company has performed well with net sales and value of production rising by 50 5 per cent and 51.8 per cent, respectively, over the previous year. Although manufacturing expenses increased by 51.1 per cent, a lower rise in other operating expenses helped the company post a 74.5 per cent rise in operating profit. Despite a steep rise in interest charges (up 80.3 per cent), a 40.4 per cent rise in depreciation charge and a tax provision of Rs 1.8 crore (1994-95: nil), the company managed to post a 69.9 per cent rise in net profit.

In the small engines segment, the market for portable pumpsets registered a growth of 12 per cent while sales in the agro-industrial market saw an increase of 13 per cent over the previous year. The company produced 74,043 engines between 3 HP and 650 HP and 21,994 'R' type engines compared to 61,778 and 17,816 produced in the previous year, registering rises of 19.9 per cent and 23.5 per cent, respectively. Production of bimetal bearings and engine valves also increased from 14,233 million to 17,981 million (up 26.3 per cent) while that of bimetal strips increased by 15.4 per cent from 2,213 tonnes last year to 2,554 tonnes. The company also produced 70 diesel engines above 250 HP (in cylinders) compared to 41 engines in the previous year, netting an increase of over 70 per cent.

The company's auto division continued to perform well and the in-house manufacture of automatic link machining lines is expected to improve productivity and quality of bearings in addition to reducing manufacturing costs. With the valve manufacturing capacity being shifted from Pune to Nasik, the production of valves doubled during the year under review and there was a reduction in manufacturing costs. While the auto components division continued to show a robust growth, the company continued its efforts to enhance the 'Kirloskar' brand equity through quality service to OEMs and strong field-work The company's engine division increased its market share from 20 per cent to 30 per cent in the large engine segment due to the favourable climate for new industries and the augmentation of manufacturing facilities. Kirloskar Oil Engines already has an 80-85 per cent market share in the small engines segment

The company's share price, meanwhile, is hovering around Rs 60 discounting its 1995-96 earnings per share by 5.1 times

DCM DAEWOO MOTORS

Accelerated Progress

After launching its 'Cielo' range of cars in July 1995, DCM Daewoo Motors seems to have surged forward in terms of sales and profits. The response to its cars was encouraging and the company also came out with an upgraded version of the 'Cielo' – Cielo GLX, a luxury model, in September. The luxury model offers many new features such as tiltable steering, CD music player system, moulded trim doors, rear seat belts, power window controls for each passenger as standard fitments and air safety bags as an optional feature.

For 1995-96, the company saw a net sale of Rs 459 5 crore and a net profit of Rs 49.7 crore compared to net sales of Rs 125.8 crore and a net loss of Rs 9 crore in the previous year, 1994-95. The company produced 9,117 cars and 2,071 light commercial vehicles

(Rs lakh)

Growth and Financial Indicators/ Year Ending	Bharat Forge March 1996	Bharat Forge March 1995	Kirloskar Oil Engines March 1996	Kirloskar Oil Engines March 1995	DCM Daewoo Motors March 1996	DCM Daewoo Motors March 1995
Income/appropriations						
1 Net sales	43422	30553	62539	41546	45946	12575
2 Value of production	43387	31516	63316	41717	49876	12569
3 Other Income	698	702	1169	682	5585	1551
4 *Total income*	44085	32218	64485	42399	55461	14120
5 Raw materials/Stores and spares consumed	20542	15191	36801	24268	37263	10663
6 Other manufacturing expenses	5255	4305	8877	5958	4415	933
7 Remuneration to employees	3470	2534	4510	3110	1430	599
8 Other expenses	3765	2858	6896	4822	3925	1447
9 *Operating profit*	11053	7330	7401	4241	8428	478
10 Interest	4382	3401	4047	2245	2686	1297
11 *Gross profit*	6852	4222	3789	2336	5711	–668
12 Depreciation	1764	1660	1622	1155	742	232
13 *Profit before tax*	5080	2553	2167	1171	4969	-900
14 Tax provision	–	-	177	–	–	–
15 *Profit after tax*	5080	2553	1990	1171	4969	-900
16 Dividends	1788	897	418	300	–	–
17 Retained profit	3292	1656	1572	871	4969	-900
Liabilities/assets						
18 Paid-up capital	7678	4806	1777	1319	9184	9184
19 Reserves and surplus	33667	20090	13892	7306	7530	7194
20 Long-term loans	26353	31262	13004	11039	1053	1788
21 Short-term loans	9429	4430	8468	5318	11674	36345
22 Of which bank borrowings	7450	4025	78	95	-	1435
23 Gross fixed assets	33984	27991	22669	18219	25857	10749
24 Accumulated depreciation	11082	9352	7908	6388	2897	2137
25 Inventories	8910	8125	10628	7394	42647	3200
26 Total assets/liabilities	88895	69240	59460	38732	108904	61523
Miscellaneous items						
27 Excise duty	5336	4242	5395	3954	13888	703
28 Gross value added	14699	10193	12167	7685	5110	515
29 Total foreign exchange income	5230	2998	1961	2227	4862	3067
30 Total foreign exchange outgo	3467	1159	8765	3850	51547	4326
Key financial and performance ratios						
31 Turnover ratio (sales to total assets) (%)	48.85	44.13	105.18	107.27	42.19	20.44
32 Sales to total net assets (%)	56.30	50.43	168.38	166.30	156.06	23.07
33 Gross value added to gross fixed assets (%)	43.25	36.42	53.67	42.18	19.76	4.79
34 Return on investment (gross profit to total assets) (%)	7.71	6.10	6.37	6.03	5.24	-1.09
35 Gross profit to sales (gross margin) (%)	15.78	13.82	6.06	5.62	12.43	-5.31
36 Operating profit to sales (%)	25.45	23.99	11.83	10.21	18.34	3.80
37 Profit before tax to sales (%)	11.70	8.36	3.47	2.82	10.81	-7.16
38 Tax provision to profit before tax (%)	–	-	8.17	-	0.00	0.00
39 Profit after tax to net worth (return on equity) (%)	12.29	10.25	12.70	13.58	29.73	–5.50
40 Dividend (%)	40.00	30.00	25.00	5.00	–	–
41 Earning per share (Rs)	12.59	8.80	11.77	9.48	5.41	–0.98
42 Book value per share (Rs)	101.54	81.60	92.35	69.32	18.20	17.83
43 P/E ratio (based on latest and corresponding last year's price)	6.18	3.59	5.10	1.77	3.14	–
44 Debt-equity ratio (adjusted for revaluation) (%)	63.74	125.57	83.25	128.75	69.85	10.92
45 Short-term bank borrowings to inventories (%)	83.61	49.54	0.73	1.28	-	44.84
46 Sundry creditors to sundry debtors (%)	72.85	70.74	81.37	86.64	138.87	183.45
47 Total remuneration to employees to gross value added (%)	23.61	24.86	37.07	40.47	27.98	116.31
48 Total remuneration to employees to value of production (%)	8.00	8.04	7.12	7.45	2.87	4.77
49 Gross fixed assets formation (%)	21.41	9.36	24.43	1626.92	140.55	97.30
50 Growth in inventories (%)	9.66	19.71	43.74	2055.69	1232.72	–6.24

– means not available

(LCVs) and sold 9,044 cars and 1,975 LCVs during the year under review. Its thrust on exports also saw its exports of LCVs increase from 787 vehicles last year to 987 vehicles, representing an increase of 25 per cent. The company has completely wiped off its accumulated losses and seems set to capture a significant part of the car market in the country.

Meanwhile, for the first half of the current year the company has earned a net profit of Rs 28.2 crore on gross sales of Rs 584.3 crore compared to a net profit of Rs 17.5 crore on gross sales of Rs 114.5 crore in the corresponding period last year. The company plans to drop the word 'DCM from its name after its rights issue in December as the DCM group will be renouncing its 24 per cent holding in favour of Daewoo Corporation of South Korea. After this, Daewoo Corporation will have a 75 per cent stake in the company and there will be a complete change in the board of directors. After formally acquiring Toyota's 2.5 per cent, the Korean car-maker's stake will further increase to 77.5 per cent.

The rights issue, which is expected to garner around Rs 700 crore, is being made to finance the doubling of the production capacity from the existing 72,000 cars per annum to about 1.5 lakh cars per annum. While 70,000-75,000 vehicles will be its small car, the rest of the capacity will be used for the launch of larger luxury models. By the year 2002, the company plans to achieve a targeted total capacity of up to 2,10,000 cars.

Due to the slowing down of the car market, the company has revised its earlier sales target sales for 1996-97 from 50,000 cars to 36,000 cars. However, as it managed to sell only 12,000 cars in the first half of the year, the revised target also seems difficult to achieve. The company claims that it has already achieved 45 per cent localisation as far as the 'Cielo' cars are concerned and by April 1997 localisation is expected to shoot up to 75 per cent following the commissioning of its project to manufacture engine, gear box and panels locally.

With the company's Korean competitor, Hyundai, planning to launch its small car in 1998, DCM Daewoo has advanced the launch of its own small car, christened 'Tico', by about two years to early-1997. In the luxury car segment too, the company plans to introduce the 'Daewoo Espero', a 2000 cc luxury sedan estimated to be priced around Rs 10 lakh, in March next year. In order to compete with Telco and Bajaj Tempo, the company plans to launch its 3.5 tonne LCV early next year. This will be followed by more vehicles in this range.

The company's share price currently rules around Rs 17 discounting its 1995-96 earnings per share 3.1 times.

The Press Council's Bill on Right to Information

A G Noorani

The Right to Information Bill drafted by the Press Council is a step in the right direction and merits close study by the media and wide public discussion.

THE Press Council of India has prepared a draft Right to Information Bill, 1996. It is preceded by a brief explanatory note. The Bill is a step in the right direction and the Press Council and its chairman, Justice P B Sawant deserve praise for this. The Bill merits close study by the media and wide public discussion.

The note makes no reference to the Supreme Court's recognition in several cases that the right to know, the right to information, flows from the fundamental right to freedom of speech and expression, embodied in Article 19(1)(a) of the Constitution. The major cases are - the State of UP vs Raj Narain AIR 1975 SC 865, Maneka Gandhi vs Union of India AIR 1978 SC 597; S P Gupta vs Union of India (High Court Judges' transfer case) AIR 1981 SC 149; and Secretary, Ministry of I and B vs Cricket Association of Bengal and Ors (1995) 2 SCC 161.

The proposed law will *not confer any new right on the citizen*. It will only provide a procedure for the enforcement of an existing fundamental right which the legislature has no right to curtail; still less the executive.

As it is, Section 75 of the Indian Evidence Act, 1872 binds "every public officer having the custody of a public document" to give any person "a copy of it on payment of the legal fees" for it. It is subject to one qualification which defines the status of that person, precisely his *locus standi*, in these words: "which any person has a *right* to inspect". The ambit of the Indian citizen of an Independent Democratic Republic in 1996 is surely far greater than that of an Indian subject of the British crown in 1872. His right to petition for public causes through writ petitions has received a wider interpretation in the Supreme Court only in the last decade and a half. A similar interpretation needs to be given to his 'right' to inspect under Section 75 of the Evidence Act.

The Bill must remove all doubts on this right. Even so it will not be enough unless the state's power to withhold information is restricted to accord with the citizen's right to know. In short, the Official Secrets Act, 1923 must be reformed. As it stands it is clearly violative of Article 19(1)(a) and is void. On this the Press Council, headed by Justice R S Sarkaria - no liberal, he - did something egregiously wrong. The Council, headed then by Justice A N Grover, had prepared a draft Bill to reform the Official Secrets Act in 1982. In 1990 the Council backtracked on its own draft and proposed one which was more restrictive. It imitated Margaret Thatcher's Act of 1989, a glaring instance of blind imitation of the British.

To come to the PCI's Bill of 1996, its core is Clause 3 which reads thus:

"(i) Every citizen shall have a right to *information* from the *public body*;

(ii) It shall be the duty of the public body to maintain all records duly catalogued and indexed,

(iii) The public body shall be under a duty to make available to the person requisiting information, the information sought for including such information as it is under an obligation to obtain and furnish and shall not withhold any information or limit its availability to the public *except the information specified in Section 4*;

(iv) All individuals whether citizens or not shall have right to such information as affects their life and liberty."

Is not this sub-clause (iv) restrictive of sub-clause (i)?

This provision must be read along with the definitions in Clause 2. 'Information' means *any* fact relating to the affairs of a 'public body' and includes the records relating to its affairs. The right to information means the right to be informed of its affairs and includes inspection of the records as well as taking notes and receiving certified copies. Clearly the crucial definition is that of the 'public body'. It is defined thus: " 'Public body' includes: (a) State within the meaning of Article 12 of the Constitution of India; (b) All public undertakings and non-statutory authorities; and (c) A company, corporation, society, trust, firm or a co-operative society, whether owned or controlled by the government *or by private individuals* and institutions *whose activities affect the public interest*."

Thus a company like Union Carbide would come within its sway. But the doubt persists. Is the right to information contingent on proof that the information affects the citizen's 'life and liberty'? This is either superfluous or, worse, unconstitutionally restrictive. It violates Article 19(1)(a). A citizen has, for instance, a right to know of matters of foreign policy; indeed *any* matter of public policy quite regardless of his personal interest. That is what citizenship is about - an informed interest in public affairs, not involvement exclusively in personal well-being.

This right is subject only to 'reasonable restrictions' and only on grounds mentioned in Clause (2) to Article 19(1)(a) such as the security of the state. Clause 4(1) of the Bill reproduces most of them and adds to them "investigation of an offence". Sub-clauses (2) and (3) mention personal or medical information of a private nature and trade and commercial secrets protected by the law.

Clause 5 is a salutary provision which enjoins public bodies to offer information to the general public. It has an interesting clause which reads thus: "It shall be mandatory for each custodial establishment such as a police lock-up, jail, mental asylum, remand houses, beggars home, etc, to appoint a visitors' committee comprising independent citizens which shall have full access to the custodial establishment at all hours of the day and night and to the records and inmates of such establishment."

The rest of the Bill lays down the procedure for the enforcement of the right. If information is refused improperly the officer will be held responsible personally. Information must be furnished within 30 days of the application. Reasons must be given for any refusal. Appeal against refusal lies to the principal civil judge of the area.

One is reminded of the Karnataka Freedom of Press Bill, 1988 (L A Bill No 12 of 1988) Clause 3(1) of the Bill said: "Every person who is bona fide requires a public document shall be entitled to obtain access to such document other than the ones specified in Clause (2)." It, incidentally, also provided journalists immunity against disclosure of source of information. The Press Council would do well to take up that subject in earnest before long.

COMMENTARY

LNG Policy for Power

More Questions than Answers

Kannan Srinivasan

The current intense interest in and lobbying for basing a part of the power programme in India on liquefied natural gas (LNG) has to be seen in the context of the global slow-down in demand for LNG. The overcapacities among most large producers of LNG has prompted a desperate search for new consumers, and India appears to be succumbing to that international pressure without scrutinising the feasibility of opting for an LNG-based power programme.

THERE has been strong lobbying for India to base part of its power programme on imported LNG – at every available forum.[1,2,3]

And things are moving fast on the ground. Enron has signed a letter of intent for a partnership with GAIL and hopes to reach an agreement for the supply of 5.8 million tonnes of LNG annually to Gujarat as well as its own 1624 MW power plant at Dabhol. The ministry of petroleum and natural gas has given extraordinary permission for retired GAIL chairman K K Kapoor to immediately join Enron as a consultant. Yet government rules require that there be a 'cooling-off' period of two years before a PSU official or civil servant takes up private service, in order to minimise the osmosis of confidential government information and any conflict of interest. The petroleum ministry has directed that a new undertaking be formed – the LNG Corporation of India – to set up facilities to import liquefied gas. GAIL, IOC and other PSUs will have to invest 60 per cent; the remainder may come from an international oil major. Enron has held talks with QGPC and Ras Laffan LNG company (70 per cent QGPC, 30 per cent Mobil) on purchasing the gas from Ras Laffan's second 2.5 million tonnes/year train and dedicating it to Enron's Dabhol plant with deliveries starting in 1999.

Yet the costs of an LNG policy for power in India have not been seriously examined. Is this the appropriate choice of fuel? Although GAIL has done some costing, this has not been made publicly available before recommending these massive investments. How does LNG compare as a fuel for power with coal, crude or fuel oil? We have been provided rule-of-thumb figures, without any explanation as to how they are derived. The other virtue of LNG is that it produced almost negligible emissions compared to most industrial fuels. Now, many environmental benefits can be expressed in economic terms: but the petroleum ministry's economists resist that temptation. Much of this hard-sell has the flavour of the unspecific discussion about nuclear power 25 years ago. The costs of disposal of nuclear wastes were dealt with only when they had to be identified and segregated. Then it became clear that the supposed low cost of nuclear power did not take into account the disposal of nuclear waste and closing down plants, which must ultimately be absorbed by the government. Similarly, in discussion today about LNG, we are only told that world gas reserves are larger than those for oil. But the enormous cost of the transportation of such fuel – in comparison to the transportation of oil – are not seriously discussed. Petroleum secretary Vijay Kelkar sees a global elegance in uniting a clean fuel located in one remote part of the world with the demand somewhere else – without going into the enormous costs of liquefaction, shipping in special gas carriers, regassification and transportation and storage at the receiving point before this gas is used in power plants. And all these investments must be secured in advance.[4]

The costing of one of the Seven Sisters – with large gas holdings and LNG investments – is $ 6.7 billion for a 6 million tonne per annum for a two train project. Liquefaction costs amount to 40 per cent of the total investment ($ 2.8 billion), exploration and production costs 25 per cent ($ 1.7 billion), shipping investments 30 per cent of the total ($ 2 billion) and terminal costs 5 to 10 per cent ($ 0.5 billion). This capital cost of about $ 1000 per tonne will work out to a capital charge of around $ 250 per tonne. That should be compared to around $ 120 for the import of low-sulphur heavy stock fuel oil. This would include the cost of raising resources for investments assuring a 20 per cent pre-tax and a 9 per cent post-tax. The cost of funds would be around $ 200 per tonne and the cost of gas another $ 50, liquefied. This works out to a capital investment of $ 1000/a tonne of LNG produced annually, not even including depreciation, maintenance and royalties. So the cost of LNG plus the necessary capital investment will have to be compared with other choices of fuel such as naphtha and fuel oil – which may be around 40 per cent to 60 per cent of LNG price (not counting LNG capital investment in terminal facilities). LNG carriers cost around $ 250 million per ship and an LNG fleet will require an annual expenditure of around $ 100 million for repair. From 1975 to 1979, there was a boom in LNG fleets. Today we are replacing the fleets built between 1965 and 1974, which are being scrapped. So although there is a surplus LNG capacity, there is no surplus fleet: these fresh investments will be reflected in the delivered price of gas. This is the investment till the point of receipt in India. An entire new set of investments must thereafter be made. An important element is the setting up of terminal facilities. Because of high safety requirements, an LNG terminal cannot be integrated with any existing port. An international engineering contractor estimates that another $ 2 billion will have to be invested in terminal, storage and regassification facilities for this LNG when it reaches India.

There is no world market for gas. Such a wide range of prices prevail, depending not only on transport costs – but also the bargaining strength of the importer. Today with overcapacities having been created, a strong importer could conceivably obtain an attractive price. But even that has to be within a range. An eminent international energy expert estimates that the range of prices that could prevail should vary between around $ 2.5 million British Thermal Units (MBTU) and $ 3.5/MBTU. The US has paid prices of around $ 1.5/MBTU for LNG because it has large reserves, and can import from Canada or from Mexico. Europe pays around $ 2.5/MBTU for LNG. It has the alternative option of importing gas through the Algeria-TransMed pipeline; and of importing from Russia. Rates of around 3.5 have prevailed in Asia. Economies such as Japan, Korea and Taiwan which have no domestic fuel and must in any case import, have determined this price. BP's *Review of World Gas*, 1995 shows that Japan's average CIF price actually went down from $ 3.35 to $ 3.04 for imports from Alaska, from $ 3.52 to $ 3.07 for imports from Abu Dhabi, from $ 3.46 to $ 3.05 for import from Malaysia per MMBTU. The lessons for India are that LNG prices even in 1994 were around $ 3.0, and sliding further south: $ 2.5 may be more realistic than $ .35. Second, Japan and Korea's LNG requirements were unique and do not

apply to India. Their downstream industry had already been built on the basis of LNG imports; LNG terminal facilities already existed; these countries were strong in ship building and commercial shipping; they are a considerable distance from assured source of gas supplies. What should be the price of this imported LNG? The indicative price has been taken to be that arbitrarily arrived at for the gas to be delivered by the Oman-India Pipeline. Whether this is the right price to pay for any fuel in India and the best price to pay for west Asia liquefied gas – of that there is no discussion. An eminent international energy specialist argues that the break-even price for new LNG projects in west Asia is a little below $ 2.4/MBTU. There is a virtual conspiracy to compel us to accept $ 3 5/MBTU as the price for LNG – a price paid by Japan, a country much further off from producers than India, on older contracts, and hence with much greater shipping costs – and at a time when its demand was high. India should aim for $ 2.4-2 5/MBTU as the price to be negotiated – if indeed it should import LNG at all

Global trade has largely been the imports of the Japanese and the prosperous Asian Tigers, as well as west European imports from Australia and elsewhere. The appetite of west Asia gas producers who sit on reserves so large that they often have not even been explored – because they have functioned primarily as producers and exporters of crude oil – has been whetted. They have now kicked in with vast projects promoted by global oil and gas majors such as Mobil, Shell and Enron. These overcapacities seem to be the reason for their hard sell in India.

Projects may have been proposed on the basis of inflated demand forecasts and may therefore not materialise in the time-frame that the suppliers expected. And that demand to accommodate those supplies may well not be established until after 2010. We should keep an eye on investors in LNG plants – namely, Shell, Mobil, Total, Marubeni, Mitsui, QGPC of Qatar, Hunt, Exxon, Mitsubishi, Enron and Itochu – as those which may have a strong vested interest in promoting LNG consumption in India and elsewhere in Asia Pacific.

The first Indian LNG conference was held in Madras on October 20, sponsored by the Indian PSUs on command from the ministry of petroleum. It was dominated by investors in LNG plans trying to sell their overcapacities; QGPC of Qatar represented by Naseer K Jaidah, Jeffrey Nelson, vice president of Mobil LNG, Herbert Gammons of Amoco, with representatives also of Marubeni, Mitsubishi and Mitsui Liquefied Gas Carriers. Petroleum minister A Baalu announced that LNG was the appropriate fuel for India and its use should be ensured.

Demand Slow-Down

The unexpected slow-down of Japanese demand has created some of the overcapacities of today: since in Qatar, Australia, Oman and elsewhere, oil and gas companies made plans assuming sustained Japanese growth. Japan is a large burner of crude oil and uses LNG for power only at the margin for generating power in urban centres such as Tokyo and Nagoya. The demand for stabilising CO_2 emissions on OECD economies seems to have weakened. Crude burning for power generation will remain a permanent feature of Japan's power scene. LNG power plants are used for peaking load operators to cover the daily fluctuations in power demand; but do not constitute the principal strategy for power generation by Japan. Korea may be revising its demand projections for LNG – namely, 15.5 million tonnes by 2001 – downwards Quite apart from Korea's dealings with Ras Laffan, its memorandum of understanding with Oman for 3 million tonnes a year beginning in 2000 for 25 years may not be honoured – because it is seeking to reduce its supply volume from Oman – arguing for the diversification of its supply sources. Korea has been playing hard to get with most sellers for some time now: since it has been able to play at least seven suppliers – namely, Qatar, Indonesia, Malaysia, Australia, Oman, Yemen and Russia – off against one another. In 1995, Korea apparently covered all incremental demand above contract levels with spot volumes of LNG from Malaysia, Australia and Brunei at US$ 2.6 to US$ 3.1 per MBTU. Taiwan has yet to formalise its contract with Qatar's Ras Laffan project – even though it has signed an MOU for 2 to 2.5 million tonnes of LNG. Even in Taiwan, LNG expansion plans will face fierce competition from light sulphur fuel oil.

Enron – and Indian's petroleum and power ministries – could save Ras Laffan LNG, which has had a tough time firming up customers Despite many letters of intent from buyers in Asia and Europe, only one firm sales and purchase agreement has been signed: 2.5 million tonnes LNG annually to the Korea Gas Corporation for 25 years. Should Ras Laffan not manage to sell its second train, the entire 10 million tonne/year project may not be economically viable. Korea may not exercise its option to lift the output of one second train and therefore increase its liftings to about 5 million tonnes a year. Only such an agreement would enable Rasgas to start work on 2 trains and award the construction contracts. Rasgas must secure additional LNG customers in the next few months before March 1997 in order to go ahead with the second train. Rasgas has letters of intent from Taiwan's CPC, the Petroleum Authority of Thailand, China, India's Essar Group and Turkey's Botas, but without any concrete agreement for sale. Botas of Turkey's stated intention and MOU/LOI to buy 2 million tonnes from Rasgas may collapse if it buys 4 million cubic metres from Algeria and 1.2 billion metres from Nigeria.

Shell Gas of the Netherlands and Royal Dutch Shell have a strong stake in promoting the expansion of liquefied natural gas consumption. It is a large investor in giant LNG projects in every country -- Oman, Australia and Malaysia among others. Shell runs the risk of having created overcapacities and in any case will face competition from other LNG producers. So it must find new consumers – such as India. The MLNG-III (Malaysia LNG Tiga) project, which will consist of two 3 4 mmt/year trains, will bring Malaysia's export capacity to nearly 23 mmt/year by the beginning of the next century. Partners in the downstream side of the project are Petronas with 60 per cent of the shares, followed by America's Occidental, Japan's Nippon Oil, Shell Gas B V of the Netherlands, and the state government of Sarawak, with 10 per cent stakes each. This will give Shell the unique status of being the only firm involved in all three LNG projects in Malaysia. It is unclear whether the huge expansion projects by Shell in Australia can go ahead as planned. Shell plans to add 23 million tonnes which will therefore pre-empt other demand, drastically reducing or at least delaying the need for grass roots projects. Woodside Petroleum, operator of the North-west Shelf LNG project, has been supporting the development of the new reserves (Perseus) adjoining the North-west Shelf acreage, which are said to contain sufficient gas to support a two-train expansion at a cost of around US $ 4 5 billion, doubling capacity by the beginning of the next decade. But this would compete with the utilisation of Gorgon gas – developed by a consortium of Shell, Chevron, Texaco and Ampolex called West Australian Petroleum (Wapet). Shell has a very important position in the Oman Liquefied Natural Gas Company (OLNG), where it holds 34 per cent to the Oman government's 51 per cent. France's Total owns 6 per cent, Partex of Portugal 2 per cent, Japan's Mitsubishi and Mitsui and Itochu small proportions. OLNG holds a letter of intent from South Korea for 3 mmt/y, which Korea may find too large after signing with Rasgas for 2.4 mmt/year Oman has been holding talks with other prospective buyers, but no firm commitments have been made by any to the project. Shell is considering cutting down to only one 3-mmt train, which would affect the economics of the project. The Oman LNG project, with a capacity of 6 MMTPA, will have an excess of about 2 MMTPA between year 2000 and 2003. Every country save India realises this

is not a sellers' market but a buyers one.

Moreover, the basic question as to how LNG fits into India's power programme has not been seriously examined. What passes for national policy today really amounts to the formulation of unrealistic objectives, and emergency measures undertaken in order to fulfil them which lead to further chaos. In the pursuit of transparency in the stock market, foreign investors and brokers were brought in and the domestic market closed down. Power is important for growth: Enron was invited in to set up projects even if they should bankrupt the state electricity board.

LNG is a clean and efficient feedstock; so it has to be obtained at any cost. The demand for baseload power in India – as distinct from peaking – was first deliberately inflated. Consequent on that inflated figure of demand, it has then been found impossible to meet the target – unless substantial quantities of LNG are imported.

Notes

1 The Report of the R-Group says: " . It would appear from above, that in case of south India, LNG imports would be competitive *vis-a-vis* the gas supplies imported through the pipeline at the prices settled with the Oman Oil Company. ." But we should consider whether that was ever a realistic price. John Deuss and Satish Sharma arrived at some private deal. Why is it now the benchmark? ". LNG has a further advantage over the gas imported through the pipeline in that the investment related to consumption and transportation can be made in phases and do not have to be made in a short span of time.. The technology of production of LNG, its transportation and setting up of LNG terminals is a proven one. " But there are proven technologies which may be inappropriate to India because they are too expensive, and this coal-rich country has other energy options. " ..The new LNG capacities which are being planned in the Middle East – Qatar and Oman, would give enough flexibility to take care of changes in quality required as well as prices, in the future...". The mere fact of west Asia overcapacities does not mean that these prices will be low enough to meet India's requirements; and the great costs of investments to receive LNG are not taken into account

2 Petroleum secretary Vijay Kelkar addresses himself – as in the Lovraj Kumar Memorial Lecture – lobbying for LNG producers. He says "natural gas, unlike oil, can be an harbinger of peace, certainly in our part of the world While oil has been an instrument of domination and a source of conflict, natural gas will promote co-operation amongst nations. Simple reason for this is that in natural gas trade the relationship between buyer and the seller tends to be more symmetric and contracts are long term. These factors encourage and nurture co-operation." But the sellers are the same multinationals which produce oil firms such as Mobil and Shell. Whatever is asymmetric about oil markets will also be true about gas. "Carbon taxes will play even a greater role in energy policies not only in OECD countries but also in other countries and this will demand energy efficient technologies evolve at a faster pace. This trend places hydrocarbons at an advantage compared to coal and other fuels. This of course will tilt the scales even further in favour of natural gas in the global energy scene." But optimalities are specific to situations and projects Here we are dealing with commercial contracts with LNG producers. What makes sense for a power plant located in a city centre may not be true of a remote location in a country with large coal reserves. Global optimalities will apply when we plan for the planet as a whole India, with a population of nearly a billion, produces a very small part of global carbon emissions - at one estimate, less than 0.5 per cent. Moreover, the US is the world's largest consumer of coal

"What I have in my mind are the offshore sub-sea pipeline routes and the most secured route is of course deep water pipeline route as envisaged in the India Oman Pipeline. There are underlying technological problems in implementing such deep water pipelines but these seem to be such that these may not be insurmountable. Hence, for a century long perspective I have no doubt in my mind that mastering of deep sea pipeline technology will have to be one of our major technology missions This will enable us to solve, in substantial manner, the great supply question for the next century What one is suggesting is that to have a super energy highway of deep-water India-Oman pipeline with Oman as a hub and to get natural gas whether from Oman, Qatar, Iran or Saudi Arabia to be imported to India Such a scheme can be of course supplemented by importing natural gas via on-land route through Pakistan either from Turkmenistan or from Iran " Now this India Oman pipeline has been abandoned by the Oman government as impractical It would lie over the Owen-Murray Fault, prone to seismic tremors. No pipeline has ever been built at such depth and enormous water pressure Top international engineering firms refused to even consider this project

Could it be that the whole exercise of the Oman-India pipeline has been a wilful diversion – in order to simply create a benchmark for imported LNG prices? "Coal . transportation costs ..would make the price of coal at consumption points in other parts of the country much higher than current levels favouring, particularly greater use of natural gas (whether indigenously produced or imported)" We must consider whether policy is better directed at improving the utilisation efficiency of coal, or such a cumbersome dependence on imports. "The distribution of natural gas reserves in the world is very different from that of crude oil reserves." A large part of west Asia's reserves has not even been explored because the demand has not developed. Now that Oman, Qatar and Yemen are becoming significant exporters, we may soon see the exploration of these reserves "The investment costs are currently (1996) about $ 0.7 million to $ 0.9 million/MW compared to over $ 1.1 million/MW for coal-based power plants." But should we take Enron's sums, gas-based combined cycle power plants are more expensive than anything else in the world. "The cost of production of power, assuming that gas is available at about $ 3 5 per MMBTU, works out to 6 to 7 cents per kWh." The Report goes on to say: "for coal, it would be higher." But this is nowhere substantiated.

Yet Kelkar has always been pushing LNG; a decade ago he argued for it with the same vague generalisations as today. At the time he headed the Bureau of Industrial Costs and Prices (BICP). He wrote 'Towards a new energy policy' in October 1988: ".. since the first oil crisis, the basic tenet of India's energy policy has been to treat coal as a primary source of energy ; this policy needs a review... It is suggested that the coal sector has emerged to be the 'weakest link' in the vertically integrated national economy . Hence, if the present energy policy is continued, these problems are likely to be accentuated. .If one takes into account the import replacement effects through the better performance of energy sector, there is little doubt that the new energy policy would only further improve the net balance of payments position In any case, our proposed new energy policy envisages much larger use of natural gas Experience shows that the management of hydrocarbons supplies is much easier than that of coal and the inter-related transport sector "

3 Wood Mackenzie Consultants is a subsidiary of NatWest markets. It has uncritically lent its voice to the present lobbying for India to import LNG "Recoverable gas reserves can only sustain a rate of production of 25 to 30bcm per year for about 27 years This means that the long-term future of the Indian gas industry must rest with imports " Yet very promising areas in Assam, Tripura and neighbouring Bangladesh and Myanmar are largely unexplored and undeveloped " This leaves LNG as the only option for the supply of imported gas to India in the short term " At what price will LNG be available in comparison to coal or other hydrocarbon fuels? That central question is nowhere addressed " Wood Mackenzie forecasts that LNG will be the only source of gas imports into India upto 2010 " The scope for the satisfaction of Indian demand with gas from the north-east and our neighbours should really be examined before turning to more elaborate and expensive arrangements elsewhere " At present, the Indian gas price is fixed by the Government at a level of about $ 1 50 per MMBTU, this being at a discount to the price of substitutable liquid levels.. As we have seen, future incremental supplies of gas are likely to be in the form of LNG and as the weighing of LNG in the gas supply increases, the price of gas to the final customer will increasingly reflect the LNG price We estimate that typical costs of regassified Qatari LNG to India will be between $ 3.5/MMBTU and $ 4/MMBTU at today's prices " Clearly all Indian energy prices will be distorted in order to ensure the success of new LNG projects

4 LNG contracts ensure that investments and guarantees are tightly committed because of the possibility of default. The best-known case of a country having reneged on an LNG import is the US. El Paso Natural Gas Company, Consolidated Energy, American Natural Resources, Trunkline LNG and Sonotrach were major importers and users of LNG from Algeria. Yet natural gas prices fell sharply in America and imported energy became uncompetitive So the Federal Energy Regulatory Commission (FERC) directed users of imported LNG to default. American LNG imports virtually collapsed. Contracts became much more onerous as producers wished to protect themselves.

Social Mobilisation in Bihar

Bureaucratic Feudalism and Distributive Justice

Arvind Sinha

The Bihar countryside has undergone tremendous change in the last three decades. The landed classes of the past have given way to a combination of groups – government officials, contractors, professionals, political functionaries of the ruling parties and the mafia gangs connected with them – who constitute the new ruling class. A new form of exploitation has been superimposed on the old which directly uses the state agencies to consolidate its power. Any movement directed at social mobilisation in Bihar has to confront this reality.

UNTIL the mid-1960s the situation in the Bihar countryside was characterised by abject poverty, unemployment and destitution on the part of rural masses, on the one hand, and affluence, power, and endless opportunities for the landed aristocracy, usually from the upper crust of caste society. This upper crust of the society had the support of the bureaucracy and the political leadership.

The ruling Congress Party during mid-1960s controlled by those coming from the upper caste landed aristocracy -- the overwhelming majority of bureaucrats, technocrats, and professionals also came from the same background. The large section of the bottom strata of rural society, dalits, OBCs and tribals had to mortgage their freedom and dignity to the landlords because of large-scale indebtedness, poverty, dependence for their employment on the landlords. This society was, not surprisingly termed as being at 'ease', 'peaceful', well ordered'. There was no need for much political intervention, massive mafia attacks on the downtrodden because, they were 'good', law-abiding citizens, whose voice of protest could have been easily silenced.

The power relation has changed substantially today and the simple apex-bottom equation (the two poles of power and powerlessness) has now been replaced by a complex apex-middle-bottom power equation. The power-affluence combine, though reduced to a great extent at the apex has not percolated down to the bottom. Instead, it has been transferred to the hands of a new class of exploiter group which has successfully forged an alliance with them. The whole process of exploitation and appropriation has become complex.

The contractors, government officials, professionals like engineers, doctors, political functionaries of the ruling class parties and mafia-gangs connected with them form the new ruling classes. A nexus of all these groups has emerged through a complicated process over the last three decades. At present, this nexus of exploiters is under the hegemony and dominance of politicians from the upwardly mobile middle castes.

Development, these days has become a popular and attractive slogan. The new ruling class is trying to get as much money as possible from the state exchequer, the World Bank, the IMF, multinationals, etc, in the name of development of the downtrodden and promotion of distributive justice. Most of the money, however, is pocketed by the ruling classes. Thus, we have the phenomenon of animal husbandry mafia (fodder scam), education mafia, coal mafia, timber mafia, etc.

Through this process a new mode of exploitation and surplus appropriation has been superimposed on the old. This mode of exploitation and appropriation could be termed as bureaucratic feudalism. This mode represents the exploitation and appropriation by the newly emerged ruling class. For example, in the fodder scam thousands of crores of rupees were shown to have been spent on buying fodder, medicine, etc for the state-run animal husbandry firms and for distribution among the peasants in the Jharkhand districts of the south Bihar. Investigations, however, have revealed that only five bills were prepared and deposited showing that these items had been bought from several private firms and distributed at concerned places. It was found that bulls and buffaloes were transported on mopeds, scooters, and tractors This has been happening for the last 20 years, though at slow pace, but accelerated during the first term of the Laloo Prasad government. Such is the process through which accumulation of wealth is taking place. At least a dozen scams in different government departments have also come to light over the last six months.

Institutional Collapse and Privatisation

The outcome of bureaucratic feudalism is reflected not only in surplus appropriation and halting of production, but in the overall impact over the society as being manifest in the institutional collapse of the worst kind – in education, health, electricity, housing, and other state-run civic amenities systems. The public sector option for all such services has gradually collapsed. As a result, private options for the institutional re-arrangement have emerged over the years to provide the same at a higher price (compared to the public sector low prices). Opting out for privatisation, thus, is not a choice for Bihar society. The taxpayers are paying for what they never get in return. The worst sufferers of all these processes are the dalits, OBCs, tribals, in general, and women of all these communities who just cannot think of the private options for education, health care or anything.

Privatisation as a parallel institutional system is the result of the bureaucratic mode of appropriation and under these conditions, while the affluent and middle classes (from both urban and rural centres) are able to afford the sources and amenities provided by this parallel system with divergent degrees of convenience, the rural or urban downtrodden are pressed hardest. Under these circumstances, the context for distributive justice for the poor and unprivileged can well be understood. They are completely denied their basic right to survive Mushrooming growth of the so-called English schools and inadequately equipped nursing homes are yet other examples of this phenomenon. In gender terms, women across all classes in the rural society are becoming losers since the benefit through such opportunity normally goes in favour of men.

Does this mean that nothing positive has developed in the last three decades in Bihar? This certainly is not the situation. The caste-based exploitation and oppression, and division of labour in Bihari society has been undermined to a great extent. Now, it is not possible to oppress dalits and OBCs in the name of caste; rather the upper caste rural elites are on the defensive and in many places. This has become possible, mainly because of the changed power mosaic on the political surface which now allocates and accommodates caste-based political power in the hands of the poor, dalits, and OBCs.

Evidence of this process of social change can be traced in those areas where the downtrodden classes nor fighting militant battles under the leadership of different naxalite organisations, aimed at creating material conditions for real socio-economic

justice across different classes in the society. These movements are not confined to the narrow bourgeois concept of social justice. The militant mass is staking a claim for a radical land-reform, elimination of caste-based social oppression, ending of loot of public money meant for development, and any sort of discrimination based on caste, religion, gender, etc. State response to these militant struggle, has been brute suppression of the struggling forces via local state apparatus, in general, and police machinery, in particular.

The reservation policy for dalits and BCs, in government jobs and educational institutions has played a significant role in diluting the division of labour based on caste. Previously, most of the government and other coveted jobs were confined to the upper caste which gave them a special status in rural society as well as conferring a distinct advantage *vis-a-vis* the state machinery. This upper caste dominated bureaucratic institution worked as the reservoir of economic and political privileges and power. Now with reservations and the control of the political power the BCs and dalits are reaping advantage and economic and political privileges are flowing towards them. In this sense, there is a wider distribution of socio-economic justice in favour of dalits and BCs in the wider social context and this is providing them with a sense of dignity and power. This development is significant.

Land Reforms

Disposal of land has been taking place over the last three decades for many reasons, the most important being the pressure and psyche created by social mobilisation. I would like to emphasise here the 'psyche' component of this process in the context of social mobilisation over the issue of land reforms. Until the mid-1960s the landlord's feeling of pride in their status, power and affluence based on and integrated with 'land' was pronounced. After the zamindari abolition the revolutionary organisations, for the first time, mobilised masses and became instrumental in denying the term 'zamindar' and challenging the status of the landlords, thus attacking their pride over landed aristocratic status. The term 'kisan' was frequently and deliberately used as a challenge. Simultaneously revolutionary organisations continued exerting pressure for further implementation of land reform legislations. It was because of this pressure from communist, socialist, and naxalite movements that a fraction of the whole land reforms package was implemented by the state apparatus. The landlords were forced to accept their status as 'kisans' (even if not in the de facto sense of the term, because many large landholders even now enjoy the status of a landlord). While the communist movements enforced the implementation of land reforms through state level, large-scale land grab movement in early 1970s, the JP movement reinforced this process under the banner of the Chhatra Yuva Sangharsh Vahini which cultivated Bodh Gaya as a pocket of struggle against the Math. The naxalites went on a long protracted struggle, and expanded and promoted the overall process.

However, the communists after the land grab movement, deleted this issue from their agenda and later on abandoned it altogether. The socialists went into the Janata Party/Janata Dal, merged with ruling party politics and finally dropped the land reform issue. Their mainstay became reservation politics – an extension of distributive justice to the social sphere. Only the naxalites sustained a protracted struggle over land distribution.

Here one can find a strange dialectical relationship between the revolutionary movement and the government-sponsored land reforms. One of the outcomes of the partial success of the land reforms programme was that the landlords began to diversify their resources into extra-agricultural activities - in business, building construction, co-operative societies, etc. Diversification towards market 'profit' and not 'prestige' became their preference. The spring thunder of naxalbari found an echo in Musahari block of Muzaffarpur district in the north Bihar, generating hopes in the hearts of the downtrodden and fear among the landed aristocracy that shook the entire system. The exploitation and oppression by a section of the intelligentsia and the landlords was so palpable that even the state could not come to their rescue and was forced to enact land reforms laws under Indira Gandhi's 'garibi hatao' slogan. The turn of historical events forced even reformists like Jaiprakash Narayan to concentrate on Musahari and to promise a peaceful revolution which could give land to the tillers and emancipation from oppression of the downtrodden. So, land reforms were not a gift by the ruling classes to the poor in the countryside but a part of their strategy to 'sacrifice a part to retain and safeguard the whole'.

In a protracted process of different variants of the class struggle in rural areas, land distribution took place to a certain extent but the process is yet largely unfinished. The redistribution led to increase in land productivity and elevation of some marginal peasants and landless to the level of the small and middle peasants. The process of caste/class struggle has led to a situation in which the semi-feudal hold and control over the lives of the poor greatly loosened; consequently, one can find today a much more free and mobile social environment among the rural masses.

This free environment accelerated the process of labour out-migration from the countryside to the newly developed regions of Punjab, Delhi, Haryana, and western Uttar Pradesh. Previously, the out-migration from Bihar was eastward towards Calcutta, Assam and beyond. Now, it is the westwardly located labour deficit areas which attract the labour so much so that even trains running from Bihar are named 'Shramjeevi' (those who survive on manual labour) and 'Shramshakti' (labour power) Express. There is a sharp difference, however, between then and now. Then, the landlords' control over the lives of the migrant labour was enormous through indebtedness so that what they brought back home was taken away by the semi-feudal appropriators. Now, because of the newly achieved freedom in the countryside money is being invested in buying plots of land, or constructing small houses or providing education to their children and thereby enhancing their socio-economic profile. Now they are consuming more than before, thereby strengthening market forces at local levels. The new conditions have led to greater integration of the labourers into the national labour market. This integration has also accelerated the market process in the local rural areas. Changes could well be noticed in landholder's priorities also. They now do not prefer big landholdings, but more productive holdings.

All these positive changes with respect to distributive justice over the last three decades are the outcome of complex interaction among the political, social and economic forces in society, in which the political movement of the downtrodden has played the most important role. The rural poor with the dream of a better life and better future for their coming generation have been questing for avenues which could lead them to realise their dreams. The different shades of the left, democratic movements are the outcome of this quest. Though illiterate, they had the intelligence and capability to see that the ideology of the left was suited to them to proceed towards their goal. The basic driving force behind all these movements remained the aspiration of the toiling millions for creating social conditions that could provide them with free and decent life. It is this aspiration which gave stability and strength to the first tenure of Laloo Yadav (when it was a minority government), as he was seen as the 'messiah' of the downtrodden.

Bihari society, in general, and the rural society, in particular, has transformed from a quasi-solid state into a fluid state impinging upon those solid structures of the system which continue to exploit and oppress the masses. But as these processes are going on, the exploitative socio-political economic system has created mafiosi to thwart the process of change in society which might usher in an era of socio-economic justice for all. The ruling classes have co-opted a section

of the political leadership from the BCs and dalits into this system. As a result the hope BCs and dalits of providing political leadership and entering bureaucratic, technocratic and professional counterparts of the system, mainly via reservation policy, are reduced to ashes. This social formation, in my opinion is a malformation in the process of change. Thus, the bureaucratic feudalism is not a healthy and developed formation but a malformation which is blocking the spontaneous flow of a process of social change and thereby, is sabotaging the process of distributive justice as well.

Now the question before the forces of progress, change, and distributive justice is how to cope with this malformation, how to defeat this newly created obstacle in the way of freedom and justice for all?

[This article is a revised version of a paper presented on behalf of *Shodu Madhyam*, a Patna-based research-cum-Media centre, in a workshop on the issue of 'Social Mobilisation and Distributive Justice' held at the Gandhian Institute of Studies, Varanasi on March 19-20, 1996. The workshop was sponsored by the ICSSR. My thanks are due to Indu Sinha without whose insistence and co-operation this article was hardly possible to write.]

Protecting Health Care Consumers

Is CPA Effective?

Arun Bal

The Consumer Protection Act can effectively protect the rights of health care consumers only if the agencies set up to process grievances can be made to function efficiently.

THE Consumer Protection Act, 1986 (CPA) provided a glimmer of hope for the consumers of the health care in India. Avenues of redressal available to the consumers before enactment of the act were time consuming, costly and often counter-productive. The enactment of the legislation act raised the hopes of the consumers. The provisions of the act are radical and delay in resolving the complaint is sought to be reduced dramatically. The cases of medical negligence which used to take anywhere between five and 15 years are expected to be completed in the span of a few months. Consumer organisations working in the field of health care also gave their wholehearted support for CPA. However, today three years of experience with the redressal machinery has dampened their enthusiasm. The fierce resistance of the medical profession has in fact created more awareness amongst the consumers about the act and its applicability to the medical profession. The verdict on the Indian Medical Council's writ petition before the Supreme Court of India in November 1995 set at rest many of the objections of the medical profession and tried to eliminate discrimination by bringing in the ambit of the CPA government and semi-government hospitals which offer paid services along with the free services.

ACASH has been handling the consumers' complaints on health care from its inception. Earlier these complaints were processed under various existing acts like Drugs and Cosmetic Act, Medical Council Act, etc, and often under civil laws. After the enactment of CPA, there was no awareness about the applicability of CPA to the medical profession till the judgment of National Consumer Commission in 1992 in Vasanta Nair vs Cosmopolitan Hospital. ACASH receives complaints directly or through other consumer organisations who refer complaints to ACASH because of the expertise needed to handle and process the medical complaints. Complaints are also referred to it for primary verification. The method of handling the complaints is standardised. The written complaint is scrutinised and the details are confirmed by interviewing the complainant. Many of the details not recorded in the complaints and many a time vital information needed to arrive at the correct decision is elicited in the interview. The documentation is checked and if found inadequate the complainant is advised to collect the requisite documents. This involves prolonged correspondence with the doctor/hospital. After the documentation is complete the complaints are sent to experts for opinion in the same field. Depending upon the opinion, legal steps are taken. The complaints from other organisations are referred back to that organisation for further legal process. Certain observations may be made based on our experience.

Many complaints are found to be instigated by the other (competing) health care providers. Many a times the person or the institution indulging in such an unprofessional behaviour can be identified while interviewing the complainant. This is sad commentary on the level of professional ethics in the country. Consumers are put to unnecessary trouble due to such complaints which usually has no substance.

In majority of the complaints the main grievance is about the behaviour of the doctors. Complainants are agitated about the rude behaviour, non-disclosure of the vital details of the treatment, investigation, diagnosis, etc. Many times explanation by ACASH staff has satisfied the complainant resulting in a resolution of the grievance. Again this is a sad commentary on the training of medical professionals in the country. The profession whose practice is based on communication with the patient seems to have lost the sight of this fundamental fact due to pernicious commercialisation and emerging mercenary attitude amongst the medical profession in the country. Proper training of the doctors in communication techniques can eliminate many grievances.

Many complaints arise because of ill-equipped private nursing homes, non-availability of blood, poor ambulance services, untrained/partially trained nursing staff, etc. Serious efforts need to be undertaken to improve these facilities. Unfortunately the medical profession, whose members are handicapped due to the poor infrastructure, is usually silent on this issue. The profession has seldom supported consumer organisations in their campaign for rational drug therapy. Similarly the profession is always silent about poor quality medical equipment. The recent episode of adulterated cotrimaxazole from Boehringer Mannheim also did not spur the medical profession into any sort of action.

The issue of correctness of the treatment given to the patient often rests on the available standards of the treatment. However the standards, used in the country are usually western and many a times not applicable to the Indian situation. In the absence of Indian standards courts have to depend on the western standards. This can be a problem for both consumers as well as the medical profession.

Record keeping in the health care sector is very poor. Vital records are sloppily maintained; consent is taken in an incorrect manner and informed consent is practically absent. The record of anaesthesia is usually not found in the medical record. The patient does not receive the record copies at the time of discharge. According to a landmark decision given by Bombay High Court, the patient or his legal heir has the right to get the copies of the entire medical record on payment of reasonable charges (Writ Petition No 3720/91 Raghunath Raheja vs Maharashtra Medical Council). Proper record keeping by the profession and more awareness on the part of the consumers about the medical records can help both the consumers as well as the medical profession.

A majority of the complaints involve surgical procedures; in such cases the pre-operative anaesthesia assessment is vital. However in the private practice set-up such

a necessary part of the patient care is usually not included. This causes problem as often the pre-operative findings are not even recorded.

In some complaints the unnecessary use of hi-tech equipment or investigations causes some complication or increases the cost of the treatment significantly leading to a grievance on the part of the consumers. We have come across one complaint of internal piles operation done along with chofecystectomy at the same time when the gall bladder was found to be perfectly normal. The chofecystectomy was done by laparoscopic method. Indiscriminate import of such high technology equipment with significant financial input creates economic pressure on the doctor/hospital leading to such grossly unethical acts. There is an urgent need for developing guidelines on the use of such hi-tech equipment. At present anybody with the financial backing can import the equipment and use without any restriction.

The Bombay Nursing Home Act has been in existence for the last 35 years. However, most of 1,200 nursing homes in the city of Bombay are ill-equipped and inadequately staffed. There is an urgent need for developing an effective regulatory system and introduce categorisation of medical institutions.

As per the administrative order/guidelines of the president of National Consumer Redressal Commission to all the state commissions, the complaints filed against the medical profession must be accompanied by expert opinion stating that the complaint is prima facie true and needs further investigation. This step was taken by the commission to prevent harassment of doctors. However consumers are unable to get such expert opinion from other doctors as they are wary of giving such written opinion even in deserving cases due to the prevalent atmosphere in the private sector medical practice. Some deserving cases have been dismissed by consumer courts for the want of expert opinion because doctors are usually unwilling to disclose their identity while giving the opinion. ACASH along with Forum for Medical Ethics (FME) has set up an expert panel. The idea is to obtain the opinion of the experts, whose identity can be revealed only in the court. The practical aspect based on which such a scheme was devised is that many complaints are not fit to be taken to court. All the same the expert opinion has to be obtained. If the case is found not fit to be taken to the consumer court then the expert's identity is many a times used by the involved doctor to harass the expert professionally. Consumer courts in Maharashtra have been reluctant to refer cases for the medical opinion to government hospitals or medical colleges.

Consumer courts have belied the expectations of the consumers. Many of the district fora have not been functioning and the Maharashtra State Commission is without a president for the last six months. The delay in disposal of cases is up to four years. In one instance, the transcript of the oral judgment was lost by the stenographer and the president could not recall the details. The Maharashtra State Commission has inadequate staff. The existing staff is from the civil supplies department and is usually unaware of the legal formalities. There have been allegations of corruption against the staff. If the functioning of these courts is not improved consumers are likely to lose faith in them very soon and these courts are likely to go same way as Co-operative Courts or Motor Accident Tribunals.

The Consumer Protection Act is a radical new step towards the protection of the rights of the consumers. However, the act like any other legal remedy for social problems needs to be used judiciously. The inherent principle of CPA is system correction. However the system can be rectified if the drawbacks in the functioning of the act are eliminated by sustained efforts by consumer organisations.

Land Alienation in Tirunelveli District

Anand Pandian

The prevailing economic climate, new government incentives for agro-based investment and a fashionable discourse of environmental protection have combined to produce a wave of investment in the rural areas of Tamil Nadu. But where are these large blocks of land coming from? Who is giving up the land?

'VANAM KAATHU VALAM PERUVOM'. 'Protecting the forest, we will prosper', declares Sterling Tree Magnum in a bid to lure investors into their teak plantation schemes. The communication media of urban India are saturated these days by calls for investment in tree-plantation schemes of all kinds. Feeding on the security needs of the newly enriched middle-class, companies such as Sterling, Anubhav and VGP promise both financial security – safe, stable investment – and environmental security – a role to play in the reforestation of India. 'Growth, ecology, and security' is the motto of another one of these companies, calling itself Mother Earth Plantations. The prevailing economic climate, new government incentives for agro-based investment and a fashionable discourse of environmental protection have combined to produce a wave of investment in the rural areas of Tamil Nadu. But where are these large blocks of land coming from? Who is giving up their land for the benefit of these investors? And how are we to understand the social and environmental impact of such investments? To begin to answer these important questions, it may be worth focusing on what is happening in one small area of Tamil Nadu, south-western Tirunelveli district.

Kalakad and Cheranmahadevi blocks of Tirunelveli district have important belts of fertile wetlands supporting high yields of paddy and banana cultivation. Nestled against the eastern foothills of the western ghats mountain range, villages have been able to channel rainwaters and water from the rivers and streams running off the mountain into irrigation tanks to support such cultivation. However, these same mountains prevent the south-west monsoon from raining down on the region, so that the landscape is dominated by unirrigated dry lands. Supporting a low growth of grasses, thorny shrubs and the ubiquitous palmyra palm, these drylands can be found on the outskirts of each of the villages in the area. It is the ownership and usage of these drylands that has changed so dramatically in the last few years.

Thousands of acres of drylands have been purchased from local hands by outside parties in the last five years. In many villages such as Chidambarapuram and Ulagankulam these lands were mainly small holdings of less than five acres that were consolidated and sold by land brokers. In other villages such as Therku Karakurichi, large landowners transferred several hundred acres of land all at once to outside parties. Temple lands have also been an important component of the sold lands in many villages.

"Acquiring the land is crucial but tricky as one must convince the villagers to part with their land", says N V Rajan, general manager of Maxworth Orchards, a sister concern of Sterling Tree Magnum, dedicated to horticultural plantations (Goutam Ghosh, 'Harvesting a Fortune?' *The Hindu*, January 28, 1996). The companies work mainly through local land brokers who are able to convince villagers to sell off their land. In the Cheranmahadevi area, small landholders cite many reasons for having sold off their lands, chiefly claiming that keeping them is 'useless': *tharisaa than erunthathu* Most of these lands had been cultivated with rainfed dryland crops such as kambu, cholam, ragi and groundnut in past years. Local farmers feel that rainfall has become more erratic in recent years, making such cultivation a risky venture. Moreover, in the expansive strip of drylands between the villages and the mountain forests of the western ghats, crop depredation by wild elephants and wild pigs has become a serious problem in recent years. Many farmers have thus been forced to abandon their groundnut, millet and gingelly crops. Local land brokers have been able to convince landowners that rather than keeping these lands 'tharisu' – unused, uncultivated – they are better off selling them for cash. One tactic commonly used is to tell individual families that everyone else around them has sold their lands, so they might as well sell theirs too because they will be cut off from it anyway.

Local villagers report almost unanimously that their lands have been bought by 'Keralans'. It is difficult to verify the identity of the purchasers, however, because all transactions are conducted through land brokers. It appears that there are two kinds of parties purchasing land in the area: wealthy individuals and corporate entities. Individual parties have purchased substantial numbers of 20-50 acre tracts for tree plantations and other estates in the region. Many are business people and government officials from the neighbouring state of Kerala, while many parties from Madras and local wealthy families have followed suit most recently. The category of individual parties also includes a few men who have gone abroad to Saudi Arabia and other countries for work and have since returned to purchase blocks of land. One non-resident Indian of local origin now residing in the US has thus purchased 150 acres of land in Karisalpatti for tree plantation. Associates of the current government in Tamil Nadu have also purchased hundreds of acres of land in different blocks of the region.

The large-scale capital-intensive corporate plantations are the other main category of investment. Some of these are investor-based schemes such as those referred to earlier. Sterling Tree Magnum, for example, has a total of 950 acres of teak plantations in Karakuruchi, Panagudi and Pallivasal. Others are adjuncts to larger corporate groups, such as the 150 acre plot operation by Enfield Agro-Base, a subsidiary of the Enfield motorcycle company. Prabhu Farms, said to be a concern of a Coimbatore-based industrial group, has purchased thousands of acres of dryland adjoining the mountains from Pulavankudieruppu (10 km south of Cheranmahadevi) all the way to Ambasamudram. Sun Paper Mills of Cheranmahadevi has fenced off a vast area to grow eucalyptus and acacia sp for their raw material needs.

The most important reason for the high levels of land purchase in this region has been the low price at which buyers have been able to access lands. When the wave began a few years ago, land could be purchased for as little as Rs 2,000-3,000 per acre, and these same lands have seen a five-fold increase in price to Rs 10,000-15,000 per acre today. The rapid appreciation of land value has encouraged some to purchase land simply for speculation, leaving it as it is and anticipating selling it off at a much higher price in the future. For the most part, however, purchasers are fencing off their properties for various commercial tree plantation: teak, coconut, guava, cashew, casuarina and other fruit trees are the species found commonly. Some parties have also developed intensive fodder farms: the Church-affiliated Assisi Farms, for example, is raising cattle and fodder grass on 200 acres in Pottal and Ulagankulam.

Value of 'Wasteland'

Local opinions of these recent land purchases are decidedly mixed. Many youths welcomed the additional employment opportunity. Many of the smallholders who had sold their land accepted the sales, claiming that they needed the money for pressing family expenses. Other sellers registered a stronger sense of futility in their decision, acknowledging that retaining the tharisu land was indeed useless and they could do nothing but sell. Some expressed anger at the government loans and subsidies that seemed to be flowing to the large plantation owners

to develop these properties while they themselves were unable to make the necessary investments to cultivate them. However, the strongest sense of opposition to these sales came not in terms of individual landowners expressing the loss of potential to cultivate but in terms of local villagers expressing concern over the loss of de facto rights to use lands that were not necessarily registered in their name. In fact, in many of the villages of this area, these private drylands in question constitute the bulk of 'common property resources' available.

When encouraging villagers to sell their drylands, land brokers equate 'uncultivated' with 'useless', arguing that there is no point in keeping these lands in such a state. The low economic value and degraded condition of these lands earns them the title 'wasteland' from those interested in 'developing' them. However, if the village is considered as an agro-ecosystem with distinct and interdependent parts, the crucial role played by uncultivated lands in rural ecology and economy becomes clear. Though the bulk of income in these villages may come from wetland cultivation, the biomass resources harvested from the uncultivated drylands are essential to rural life. Cattle and sheep graze on the grasses and scrub. Leaves from shrubs and trees are cut to feed goats, and to fertilise fields. Branches of the abundant 'karuveli' (prosopis juliflora) and other thorny shrubs are the most easily accessible sources of domestic fuelwood. Jaggery boiled down from the nectar of the palmyra palm provides country sugar, while the leaves are harvested for thatch and other cottage industries. Sand and soil are gathered for building material and brick kilns. Hare and other small animals are hunted as a supplemental source of protein. Local villagers have identified tens of plants with medicinal value that grow in these drylands.

With recent prohibitions on the use of mountain forests and privatisation of government 'poromboke' lands, villagers have come to depend on this 'patta kadu' for these essential biomass resources. It may be useful here to look historically at the fate of 'common property resources' in this part of Tamil Nadu. How is it that villagers have come to depend so fully on lands that they have no legal right to use?

In his excellent history of peasant society in Tirunelveli, David Ludden notes the existence of strong traditions of collective right to drylands and grazing and wooded land on the outskirts of wetland cultivation in Tirunelveli district. Over the course of the 18th century, however, negotiations between the British colonial government and local landowners and tenants produced a rigid division between private cultivated lands and uncultivated lands belonging to the state. In an effort to maximise land revenue, the colonial government declared all uncultivated lands as 'waste' belonging in principle to the government; large landowners were encouraged to purchase 'pattas' for the rights to this land from the government. Meanwhile, in villages with extensive dryland cultivation, single landowners were able to secure pattas for vast areas of land cultivated by small farmers; the latter became 'tenants' with limited rights to the land they were tilling [David Ludden, *Peasant History in South India*, Oxford University Press, 1985].

After independence, the Indian government sought to reduce rural poverty by breaking up large zamindari estates and redistributing this and other poromboke lands to landless peasants. However, this process further reduced access to common lands. Moreover, while much of this land did not end up in the hands of landless peasants, many of those who gained rights to land were forced to sell them off again for various economic reasons. As N S Jodha describes:

> The complete process of privatisation of common property resources (CPRs) as it affected the rural poor involved three stages: (i) they were deprived of their right to collectively use the CPRs, (ii) they were given individual title to small parts of privatised CPRs, and (iii) the circumstances disentitled them of the newly received lands (N S Jodha, 'Common Property Resources and Rural Poor in Dry Regions of India', *Economic and Political Weekly*, Vol XXI, No 27, July 5, 1986.)

The scarcity of government poromboke lands in many of the villages in the Kalakad and Cheranmahadevi area can be attributed to this process. In many parts of Tirunelveli, we now see the culmination of this process through the current wave of land alienation.

The nearby mountain forests of the western ghats add another dimension to this history. The villages of the Kalakad and Cheranmahadevi areas had historically depended a great deal on these forests for fuel, fodder, manure, small timber and other resources. However, by 1895 most of these forests were notified as reserves by the colonial government to control local resource exploi-

tation, and to ensure a steady supply of timber for the railways and shipbuilding industry. In south-western Tirunelveli, rights to forest use were further restricted by the Indian government's notification of the Mundanthurai and Kalakad Wildlife Sanctuaries in 1962 and 1976 respectively. These rights were eliminated altogether with the notification of a tiger reserve in 1988, prompting important changes in local village economies. Cattle grazing in the forest was reduced substantially, as was the collection of fuelwood and non-timber forest products for sale, green manure for agricultural fields, green fodder for livestock and hunting. The loss of forest-based labour accentuated employment scarcity in the villages, contributing to outmigration for employment. The closure of forests to cattle made it difficult for graziers to care for such large herds, and thousands of cattle were sold off. The impact of forest closure spilled beyond the reserve boundaries, as crop-raiding wild pigs and elephants inhibited cultivation on the drylands near the reserve.

Socio-Economic Impact

With little access to the reserve forests and the scarcity of government poromboke lands, the private drylands now under question have become the major source for biomass resources in local villages. Though private, their unguarded condition as uncultivated fallows allows these lands to function as implicit commons. Therefore, the socio-economic impact of the sale and subsequent fencing of these lands by their new owners is felt most keenly in the further restrictions on biomass availability. Once the lands are fenced off and cleared, villagers lose access to the natural resources on which they had depended.

Consider grazing, for example. When the tiger reserve was notified local herds were greatly reduced to accommodate the reduction in available grazing lands. But now most of the fallow drylands immediately adjacent to the tiger reserve have been purchased and enclosed by fences. This has affected not only grazing on these lands but also illicit grazing on the mountain forests beyond. The small reserve forest hillock of Man Pothai, for example, is almost fully ringed by large private plantations that cut off access routes to its slopes. Moreover, many of these new estates have encroached upon and enclosed poromboke lands adjacent to their own, often with the connivance of local government officials. For example, Sankar Farms, owned by a retired Kerala government official, has 500 acres of tree plantations in Ulagankulam: 300 acres of patta land and 200 acres of encroached poromboke that had previously served as a grazing ground. In the village of Malayedipudur, cattle-owners joined together and prevented the local temple from selling off their lands on the grounds that these were important grazing commons. However, such resistance is exceptional and uncommon.

Confronted with grossly restricted grazing grounds, the number of cattle retained by villagers has been reduced even further. Villages such as Reddiarpuram, Chidambarapuram, Veeravannalur and Pallivasal have sold off up to 80 per cent of their remaining cattle herds, with many families retaining only a couple of bullocks or milch animals that can be stall-fed at home. These reductions along with reduced access to leaf manures have decreased availability of organic fertilisers for wetland cultivation. Provision of milk to children in marginal households may also be compromised. The greater difficulty in gathering other biomass resources such as fuelwood burdens women much more than men.

Company spokesmen defend their new plantations as a source of income and work opportunity for villagers. R Subramaniam, managing director of the corporate group that includes Sterling Tree Magnum, argues "We are not only transferring funds from the urban rich to the crucial farm sector, but we are also giving the farmers purchasing power" (Goutam Ghosh, 'Harvesting a Fortune?' *The Hindu*, January 28, 1996). However, the ultimate utility of the money given to local people in exchange for their lands is questionable. Some families use the money to meet economic necessities such as dowry, debt repayment or even feeding the children in times of work scarcity. Others make their investments in consumer goods or liquor. Although in some villages such as Veeravannalur a few farmers sold 10-15 acres of dryland and reinvested the money in a couple of acres of irrigated wetlands, there is little evidence to indicate that sellers have been able to make long-term use of the money gained from the sale.

As the purchased lands were uncultivated, the new tree plantations have probably increased wage labour availability in an area where employment is seasonal and scarce. Many of the estates are reported to take advantage of local unemployment to offer very low wages, as low as Rs 15 per day for men. Sterling Tree Magnum employs 300 men and women from eight local villages at its Karakurichi plantation in year-round wage labour. Men get between Rs 19 and Rs 31.50 per day, while women's maximum salary is Rs 25 per day. These workers are put to weeding, managing the drip irrigation system and applying pesticides, but it is clear that many of the available work opportunities are short-term, restricted to the care of young seedlings. The loss of income due to cattle sales must also be considered when evaluating the impact of the plantations on local labour conditions. Additionally, it is important to note that agro-corporations have the ability to draw on outside labour pools to maximise their profits. Thus, in the village of Kuniyoor, 50 local men and women lost their source of wage labour when a coconut garden was recently sold to an outside party that has imported workers from Radhapuram taluk.

Palmyra-climbers are another affected population. The drylands in question were habitat for a substantial number of palmyra palms, often more than a few per acre. Palmyra-climbing and processing of palm products was the main source of livelihood in many of these villages till recent years. This seasonal source of income was especially important as the tree fruits during the summer, when wage labour is more scarce. However, as this is difficult work with low esteem among villagers today, many families have been shifting from this to other occupations. Owners of palmyra-laden lands have complained of a lack of climbers and a lack of profits in the enterprise, cutting down their palms for sale to brick kilns or for construction. When the lands are subsequently sold to outside parties, the new owners typically cut and sell the remaining trees. A substantial number of families who still depended on the palmyra for their livelihood has lost this seasonal source of income. In Pallivasal as many as 30 families have been impacted in this manner by the recent sale of palmyras and the lands on which they stood to Sterling Tree Magnum and other parties. Though in most cases the owners of the land and the tree-climbers are distinct, in some cases families sold off palmyras which they used to climb themselves. An old man of Pallivasal who had climbed the palms for the last 28 years sold off his 4.5 acres last year for Rs 50,000 out of economic necessity and in anticipation of a better life. The money has now been spent and he, like most of these families, depends on agricultural labour for a living.

Keeping all of these issues in mind, we may turn to the environmental concerns with which this article began. The greening of barren 'wastelands' certainly sounds environmentally appealing. Many environmentalists may also applaud the sale of herds of country-bred cattle – known derisively as 'scrub cattle' – due to closure of grazing lands as a means of reducing human pressure on natural landscapes. Several forest officers in the region approved of the tree plantations as a further 'buffer' between local villages and the forests of the tiger reserve. Indeed, in villages like Chidambarapuram, the enclosed plantations have cut off several routes through which villagers had illegally collected fuelwood and other products from the reserve.

However, a growing body of evidence suggests that environmental conservation cannot be evaluated without reference to the socio-economic conditions prevailing in that area. By further disrupting the agro-ecosystems of the region, the enclosure of these drylands may augment the resource insecurity of the rural poor, encouraging

more unsustainable use of natural resources in the long run. M S S Pandian has documented some of these dynamics in the neighbouring region of Nanchilnadu, in eastern Kanyakumari district. There, the reservation of forests and the conversion of drylands into wetlands destroyed the physical balance between crop and non-crop land. Peasants were made dependent on the market for manure and other agricultural necessities harvested previously for free from common lands. The result was usury, debt and further land alienation (M S S Pandian, *The Political Economy of Agrarian Change: Nanchilnadu, 1880-1939*, Sage Publications, 1990.)

The most vital common property resource at stake in this case may be groundwater. The shift from 'panaikadu' to commercial tree plantation signals a major socio-ecological change from rainfed to groundwater-based cultivation. Though many of the large plantations such as Sterling Tree Magnum and EABL are using drip irrigation, the pumpsets they have installed draw water 24 hours a day for their tree crops. At the STM plantation in Karakurichi, for example, water is drawn from 16 open wells and five borewells in eight-hour blocks to water the trees. In this semi-arid region with sparse rainfall, the groundwater table has already dropped in some locations as a result. Increasingly, wealthy local farmers will find themselves in a race to deepen their wells to reach the receding groundwater first, as poorer farmers are left behind.

Groundwater overuse is enough of a problem. But when this water is used to grow biomass purely for the market on lands that had previously supported the biomass needs of the local people, an environmental justification for the plantations seems quite dubious. Moreover, the monocultural tree crops replace a diverse – though admittedly often degraded and overused – array of native shrubs, grasses and other plants. The benefits of these plantations for biodiversity conservation are therefore also ill-founded. The commitment these outside parties have to the local environment is equally questionable. Sun Paper Mills dumps tankloads of sewage sludge from its mill on their vast property south of Cheranmahadevi all 24 hours, to bake in the sun and seep into the groundwater table. Despite foresters' faith in the tree plantations as a buffer for the tiger reserve, it is entirely possible that some of these companies will take advantage of their privileged location to cut into the forests of the reserve as they harvest their own trees.

These observations are not meant to defend the existing condition of dryland resources as ideal. Clearly, low income from land resources on the one hand and degradation due to overuse of stressed ecosystems on the other are significant problems in many of these villages. But 'growth, ecology and security' as promised by Mother Earth Plantations should not come at the expense of local communities. Are there any other means to restore the diversity and productivity of these lands in a manner more consistent with the resource needs of local villagers?

The government of India may not think so, judging by attempts in the forestry legislation now being drafted to turn 'degraded forest lands' over to agro-corporations for plantation work. However, the work of non-governmental organisations (NGOs) such as the Social Forestry Information Project in Devadanapatti suggests that small landholders can be successfully united to develop their dryland resources sustainably and collectively for local benefit. Flexible strategies of wasteland development can be evolved to meet the priorities and resource needs of rural villagers rather than urban investors. Mixed agroforestry and silvipastoral systems may combine annual crops, fodder grasses, and trees for fruit, timber, fodder and fuel in varying proportions. Such landscapes could be ecologically useful as habitat for diverse flora and fauna, while watershed development strategies could make more efficient use of scarce water resources. The government incentives and subsidies now fuelling the wave of urban investment in rural drylands can be rechannelled towards responsible NGOs and village organisations to catalyse such an alternative 'wasteland development' strategy. It may be too late to adopt such a strategy in south-western Tirunelveli. However, the enclosure of the last of the commons in this region should serve as a lesson on the importance of addressing this problem soon in future development work.

[This research was conducted during the 10 months the author was volunteering with Community Action for Social Transformation (CAST), a non-governmental rural development agency working in 45 villages of Kalakad and Cheranmahadevi blocks, Tirunelveli district.]

Ghulam the Grim: Requiem for a Despot

David Philip

This is a chilling account of the rise of Ghulam Ishaq Khan, the former president, in Pakistan's politics. In close nexus with the army, the financial banking elite and the heroin mafia, Ishaq Khan was able to tighten his grip over the country's destiny through various clandestine activities. Though now retired, his nefarious legacy haunts Pakistan's democracy.

You can't hide the evil smell
Of evil-smelling things
Though wrapped up in a hundred veils
An onion won't be hid

–Kushal Khan Khattak

IF the famous bard of the Pathan tribes that inhabit Pakistan's rugged north-west frontier had been alive last winter, his nose would have been twitching vigorously. On the evening of February 9, 1993, a giant C-141 US military transport plane circled in the frosty darkness above Peshawar, 25 miles east of the fabled Khyber Pass. Huddled in the aircraft's cavernous belly were 65 battle-ready troopers of the elite Green Berets. After landing at a nearby airbase, the commandos boarded four Pakistani helicopters. Minutes later, they were whirring their way towards Cherat, a frequent staging point for operations into strife-torn Afghanistan.

Pakistani army chief, General Abdul Waheed claimed the US troops were merely taking part in a routine joint exercise with units of Pakistan's Special Services Group. But it smelled like an Alaskan-sized onion.

What were American military personnel doing in a nation to which the US had suspended aid in October 1990 for continuing to develop nuclear weapons – a nation which Congress had put on watch for involvement in international terrorism only the month before. Why did the supposedly 'routine exercise' just happen to coincide with the arrival in Pakistan of agents from the drug enforcement administration and FBI? And why did the intrusion of US troops on foreign soil draw so little attention from the US media?

Was the operation's real objective the retrieval of an estimated 300 left over Stinger missiles supplied to Afghan Mujahideen to fight off the Russians? Or was it, as rumour had it, the opening shot in a campaign to depose Gulbuddin Hekmatyar, the rabidly anti-American Islamic fundamentalist whose troops were fighting for control of the Afghan capital? Or perhaps it was an attempt to forcibly extradite Aimal Kansi, a young Pathan alleged to have shot to death two CIA officials at a traffic intersection in the US some years ago. The Green Berets should have left Pakistan in March but for all, anybody knows the roving Rambos could still be cooking K-rations anywhere from Kabul to Karachi.

In the lawless no-man's land that Pakistan has become, few explanations seem implausible or impossible. It is a country whose internal and external intrigues provoke questions and more questions. Though individual events have come to light, the larger story of Pakistan's descent from a relatively respectable third world power into a virtual criminal state is harder to assemble. It's worth the effort because the consequences far transcend Pakistan's own limited sphere of geo-political influence.

It involves, for instance, the $20 billion BCCI swindle, the continuing export of massive quantities of heroin to the west, and a narrowly-averted nuclear war between India and Pakistan. As well, there is evidence to suggest that Pakistan's anarchic north-west Frontier has provided safe haven for Islamic terrorists responsible for last February's bombing of New York's World Trade Centre.

Not far from where the American commandos landed is the birthplace of a man who knows far more about Pakistan's murky affairs than he would ever care to admit. Though he remains relatively unknown in the west, Ghulam Ishaq Khan, the wily 78-year-old bureaucrat who resigned as Pakistan's president in July, has wielded as much, if not more, power than either Benazir Bhutto or Nawaz Sharif, Pakistan's last two prime ministers, since coming to office in 1988. Indeed, as a member of every civil and military administration since 1961, his political longevity in the often murderous world of Pakistani public life has been remarkable. In a nation where political power is the jealously-guarded preserve of traditional elites, Ishaq Khan's ascent has been even more extraordinary.

Though his public persona has been that of a disinterested public servant who goes by the book, a closer examination of the record reveals something quite different. Behind the thick glasses and impassive demeanour of Ghulam the Grim, political opponents would dub, lay a political will of Machiavellian ruthlessness.

Given his influence and the usual panegyrics to public figures in this part of the world, biographical details are few. Born in Bannu, in the heart of what would later become Pakistan's heroin heartland, Ishaq Khan, an Ismail Khel Pathan, graduated with a science degree from Punjab University, joining the civil service of his native North-West Frontier Province (NWFP) in 1947. A decade later, he moved to the more prestigious national civil service. Married with one son and five daughters, he benignly cites economics as his only outside interest. Certainly, his concern with money and the power it could bring was much more than passing.

By the early 1970s, the future president's career had become inextricably intertwined with another Pakistani with an interest in things financial – Aga Hassan Abedi, the diabolical genius behind the Bank of Credit and Commerce International. Abedi had started United Bank, his first independent banking venture, with a $2 million loan from textile-magnate Mian Yusif Saigol, head of one of the most prominent of Pakistan's elite 'Twenty-Two Families'. But soon the Saigols were borrowing heavily from their own bank. When Abedi opposed further loans, the Saigols threatened to oust him. Abedi appealed to Ishaq Khan, now head of Pakistan's State Bank, who intervened on his behalf.

The advent of the socialist regime of Zulfikar Ali Bhutto posed a far more serious threat both to Abedi and the elite families he represented. In 1972, Bhutto nationalised all Pakistan's banks and, at one point, had Abedi placed under house arrest.

By 1977, however, resentment against Bhutto was pervasive, especially in the military. The prime minister suspected a coup and was about to move against the army leadership. He told Ishaq Khan, now defence minister, who informed army chief of staff Zia ul-Haq. Zia promptly had Bhutto arrested and eventually executed. Thus, did Ishaq Khan secure his own future in the Zia decade to follow while earning the lasting hatred of Bhutto's daughter Benazir.

The man who actually placed Bhutto under arrest, Lieutenant-General Fazle Huq, would also come to play an increasingly sinister role in Pakistan's evil metamorphosis. In 1978, Zia appointed Huq, one of his closest friends, as governor of the NWFP through which an estimated $3.3 billion in arms and aid would flow to Afghan Mujahideen fighting Soviet occupation.

Huq was also exporting huge quantities of heroin now being manufactured within his jurisdiction. Much of the profits from Huq's drug dealing ended up in the vaults of BCCI. Time magazine reporters Jonathan Beaty and S C Gwynne, in their book, *The Outlaw Bank*, note that with the collapse of world oil markets in the late 1970s, Abedi turned to drug money to shore up his ailing bank. "Abedi benefited from the backing of Fazle Huq", they write.

Employees of BCCI's infamous Black Network would unload arms for Afghanistan from ships arriving in Karachi onto trucks controlled by Pakistan's Inter Services Intelligence (ISI) Directorate. On the return trip from Peshawar, the trucks, which police were forbidden from searching, frequently carried heroin.

In the fall of 1991, Huq was murdered in Peshawar. Initially, local police said they were close to making arrests in what was thought to be a vengeance killing for Huq's alleged murder of a Shiite cleric. But the case remains unsolved and all but forgotten.

His coffers replenished with heroin money, Abedi, in 1981, offered Ishaq Khan the chairmanship of the BCC Foundation, a charitable institution sponsored by the bank, which until 1989, received all profits from BCCI's Pakistani operations. Ishaq Khan, now minister of finance and apparently oblivious to any conflict of interest, granted Abedi's bank tax-free status ensuring a steady flow of funds to the foundation he chaired. BCC did do some genuine charitable work but in reality it was little more than a convenient tax dodge often taking in far more than it disbursed.

The primary recipient of BCC largesse was the Ghulam Ishaq Khan Institute of Engineering Sciences and Technology. In 1987 alone, the foundation gave Ishaq Khan's namesake $10 million enabling the institute to complete Pakistan's first nuclear warhead the same year.

Spurred by arch-rival India's detonation of a nuclear device in 1974, it was Bhutto, the man Ishaq Khan had helped send to the gallows, who decided that Pakistan would be the first to have the so-called Islamic bomb. But it was Ishaq Khan, Pakistan's political survivor *par excellence*, who saw it through to completion. His strident advocacy of a nuclear-armed Pakistan is well known. He once told acting CIA director Robert Gates that there was no question that Pakistan would use nuclear weapons in the event of another war with India, a threat reiterated only two months ago by former army chief of staff Mirza Aslam Beg.

Just how close the subcontinental rivals came to an actual nuclear exchange, in May 1990, has been chillingly revealed by veteran investigative reporter Seymour Hersh in a New Yorker story of March 29, 1996. It is readily evident from Hersh's account that Ishaq Khan and Aslam Beg were the paramount personalities in the nuclear showdown. But there were obstacles before they could get their hands on the nuclear trigger.

At 3.46 p m on August 17, 1988, a four-engined C-130 military transport took off from a desert airstrip near Bahawalpur in southern Punjab. Aboard were Zia ul-Haq, president of Pakistan, the top 10 generals in the Pakistani chain of command and US ambassador to Pakistan, Arnold L Raphael. At 3.51 pm villagers nine miles from Bahawalpur reported seeing the plane make three erratic mid-air loops before plunging to the desert floor and exploding in a ball of flame. All 31 aboard were killed.

Despite four separate investigations, the reason for the crash remains unexplained to this day. The conventional wisdom is that the tragedy was a sophisticated act of technical sabotage. Traces of phosphorous antimony and sulfur, for instance, were found in the wreckage. Most likely, the explosives were smuggled aboard in 20 uninspected crates of mangoes just before take-off.

At first, it was thought that the crash was the work of a 'foreign hand' – the CIA, KGB or India's Research and Analysis Wing. But as American journalist Edward Jay concluded, "only powerful elements inside Pakistan had the means to orchestrate what happened before and after the crash". Military personnel at Bahawalpur were suddenly transferred. Records of Zia's calls and intelligence files disappeared and no autopsies were performed on the plane's pilots. Within weeks, all mention of Zia and the crash had vanished from the local media. Who stood to profit from Zia's death?

Immediately before take-off, Aslam Beg informed Zia that a last minute appointment would prevent him from travelling on Pak One as planned. After Zia's plane plowed into the ground and exploded, the Cessna turbo-prop carrying Aslam Beg flew directly over the crash site without even circling to look for survivors. Arriving in Islamabad, Aslam Beg met at once with Ishaq Khan, now chairman of the senate, but due for an automatic promotion.

Three years earlier, Zia had amended the constitution to allow the chairman of the senate to replace him as president in the event of his death. Pakistan's charter also gave the president the power to appoint the army's chief of staff. Aslam Beg, who *Financial Times* correspondent Christina Lamb has written was 'scarcely known' before Zia's death, now became Ishaq Khan's right-hand man.

Last September, a judicial commission began yet another investigation into the crash. The Pakistani press has identified four high-ranking army officers amongst the conspirators. It is widely believed that Aslam Beg was another. So far, the shadow of public suspicion has not fallen on Ishaq Khan. But one of Zia's sons, Ejaz ul-Haq, who in December 1988 launched a multi-million dollar lawsuit to identify his father's killers, was not so easily mollified. "The Americans, the army and the president of Pakistan are all involved", he said.

Though Hersh's story touches on Zia's murder only in passing, a motive is inadvertently suggested. Zia, it was felt, was far too responsive to American pressure for Pakistan's good and would likely acquiesce if asked to pull in Pakistan's nuclear horns. Ishaq Khan and the new army chief shared both a hostility to the US and a belief that Pakistan should strengthen ties with Pakistan's natural allies in the Islamic world. Writes Hersh, "[Aslam] Beg and president [Ishaq] Khan emerged from the...Zia crash with firm control over the Pakistani nuclear project and they maintained their control even after the general elections in November of 1988".

With Zia dead and buried, Pakistan's president played the democrat, refusing to postpone the elections that would bring Benazir Bhutto to power. But it was known that Bhutto and her Pakistan People's Party (PPP) commanded only limited support and even if she won, it was expected that Nawaz Sharif's control of Punjab, Pakistan's most populous province, would provide a counterweight to her governing effectively. As if to let her know at whose sufferance she ruled, Ishaq Khan waited a full 15 days before agreeing to swear in the new prime minister. Before he did so, he made Bhutto agree to offer no opposition to his role as president which was eventually confirmed by a vote in the senate, national assembly and the four provincial legislatures in December 1988.

The western media may have been head over heels with the Islamic world's first female prime minister but she proved a woefully ineffectual politician. Little significant legislation was passed during her tenure. As expected, the bureaucracy under Ishaq Khan's direction was largely left to run the country as it always had. Bhutto was also easily kept ignorant of the real status of Pakistan's nuclear programme.

The president seemed to go out of his way to be unco-operative. Relations were so frosty that not a word passed between Ishaq Khan and the prime minister for at least a year. Bureaucrats misdirected phone calls and misplaced files. Complained Bhutto at one point, "I'm in office but not in power". But the inefficiency and corruption which Ishaq Khan cited as reasons for giving Bhutto a prime ministerial pink slip, in August 1990, were nothing but pretexts.

In January 1989, for instance, Bhutto had met with US ambassador Robert Oakely who told her that BCCI was under investigation for criminal activity in the US. Oakely asked Bhutto to rescind the bank's Pakistani operating licence. She agreed in principle but immediately ran into strong opposition from a number of generals and high-level bureaucrats known to be on the BCCI payroll.

Bhutto also launched a concerted attack on Pakistan's heroin traffickers. It proved to be her undoing. By 1989, the drug trade was worth an estimated $10 billion to Pakistan's wobbly economy. It had become too lucrative to too many to shut down. A drug trafficker interviewed by Lamb recalled, "when Benazir became prime miniser, she launched a big campaign against the drug barons. We had

an emergency meeting and sent out warnings. A business associate of the PM's husband was abducted and several narcotics officers killed – the usual things. One of our number gave himself up and for awhile we were worried that he might name names, but the appropriate threats went out and he was released through lack of evidence. Laughable really...".

Indeed, the case against Lahore cinema owner Mirza Iqbal Baig had collapsed by October 1989. Likewise a seemingly iron-clad case against 53-year-old paper mill-owner Malik Mohammed Salim also went nowhere, even though lower courts had found enough evidence to warrant his extradition to the US. Then, just days before its dismissal, Bhutto's government announced that major names in the heroin business, some rumoured to be those of prominent and supposedly respectable citizens, would be named.

It's commonly thought that the army forced Ishaq Khan to remove Bhutto for her meddling in military appointments. But the army's animus against Bhutto is easy enough to understand for other reasons. As Selig Harrison, Senior Fellow with the Carnegie Endowment for International Peace, told the *Washington Post*, "You have about 10 Noriegas.. very high up in the military... and it's very difficult to name names".

An informant of Beaty and Gwynne's relates that near the end of her tenure Buutto "was cancelling trips abroad because she feared that the drug mafia and her political opposition would get the army to declare martial law". In August 1990, Begum Nusrat Bhutto, Benazir's mother, was unequivocal about her daughter's fall from power. "Heroin money was the issue behind the dismissal", she said.

In elections the following October, two known heroin dealers were elected to Pakistan's national assembly both as members of new prime minister Nawaz Sharif's Islamic Democratic Alliance. Today there are thought to be at least 40 heroin syndicates in Pakistan, most with well established links to Europe and North America, and they continue to operate with virtual impunity. The questions also refuse to go away.

Was the president of Pakistan paid by heroin dealers to dump Bhutto? Was it just coincidence that Ishaq Khan is a Pathan and that the manufacture and distribution of Pakistani heroin is controlled by Pathans? Why has virtually nothing been done to stop the growth, in just 10 years, of an addict population in Pakistan of 1.7 million?

Last March, Indian police announced that a wave of bomb attacks that left 317 dead in Mumbai had been financed by Pakistani drug rings. Local mobsters, the Memon family and Dubai-based Indian gangster Dawood Ibrahim, reportedly received the 240 kilograms of RDX and Semtex explosives used in the bombings from Pakistan's ISI. Said a senior police official, "we know that Dawood had reached an agreement with the Pakistani syndicates about three months ago". At last report, Ibrahim was in Karachi.

Even with Bhutto sidelined to the opposition, Pakistan's president continued his vendetta against her. Special tribunals were set up to try members of the Bhutto government and Benazir's husband, Asif Ali Zardari, was arrested on trumped up charges, eventually thrown out of court. After the vote which brought Nawaz Sharif to power, Bhutto accused the president of rigging the election.

In November 1991, Ishaq Khan's son-in-law Irfanullah Marwat was charged in the brutal gang rape of Farhana Hayat, one of Bhutto's closest friends. Marwat, home affairs advisor to Jam Sadiq Ali chief minister of the volatile southern province of Sind, was acquitted. Hayat's family accused Ishaq Khan of a cover-up. In the fall of 1991, Sadiq Ali, a man whom the *Far Eastern Economic Review* reported "acts only under the president's orders" had 2,000 activists of Bhutto's PPP thrown in jail outraging international human rights organisations.

Sind's chief minister was also a close associate of Aga Hassan Abedi. The bogus banker provided Sadiq Ali with a rented house and a £5,000 monthly allowance on a visit to London. In 1988, Pakistan exerted diplomatic pressure on the US state department to curtail senate hearings into BCCI's criminal activities. Last year, when the US formally requested Abedi's extradition from Pakistan, Sadiq Ali vowed he would never permit it. Not long after Sadiq Ali died from cancer, but Abedi's extradition was still not forthcoming.

After two heart attacks and a transplant operation, the man who bilked billions spends his time in a 4,000 square foot walled com-pound in Karachi's Defence Officer's Society – home to Pakistan's military and political aristocracy. Sani Ahmed, former head of BCCI's protocol department is reportedly working with Abedi and has been granted a licence to open a new Pakistani bank.

Pakistan's new prime minister, Nawaz Sharif, also had reasons to protect the fugitive financier. In the early 1970s, the Sharif family's holdings had been confiscated by Zulfikar Ali Bhutto. Abedi then loaned the Sharif family money to start a steel plant in Dubai and, when it became unprofitable, he found a buyer and wrote off a $2 million loan. Today the Sharif family's Ittefaq group is one of the most profitable business conglomerates in the country. In August 1991, the *New York Times* reported that advisors close to Nawaz Sharif were urging the prime minister to limit co-operation with the US investigation into BCCI so as not to offend the military.

At first, Ishaq Khan and Sharif got along well but rumours were soon circulating that the prime minister wouldn't last a full five-year term. Last February, the prime minister set up a committee to review a constitutional provision granting the president power to dismiss democratically elected governments. There were other points of contention.

Sharif insisted on appointing Lieutenant General Javed Nasir as head of ISI against Ishaq Khan's wishes. Similar disagreements arose over the selection of army chief Abdul Waheed. Finally on April 18, Ishaq Khan dismissed Sharif's government just as he had that of Benazir Bhutto's three years earlier. In May, however the Supreme Court reinstated Sharif. A power struggle ensued for control of the provincial assemblies which eventually turned into a stalemate. In July, army chief Waheed then brokered an agreement between the president and prime minister who both agreed to resign. At the time, Sharif spoke cryptically of the "secrets of his heart" which would make "the people kill the tyrants if revealed".

But there are far more ominous portents emanating from Pakistan these days. In September 1991, Ishaq Khan had travelled to Tehran. He called for closer co-operation between Iran and Pakistan and advocated the creation of an Islamic confederacy. Last summer, Iranian president Hashemi Rafshanjani flew to Islamabad where he expressed full support for Pakistan in its ongoing dispute with India over Kashmir.

Soon after the bombing of New York's World Trade Centre, two suspects, Mahmud Aboulahima and Ramzi Ahmed Yousef, reportedly fled to Pakistan. Yousef is still at large with a $2 million state department reward on his head. But when Aboulahima was arrested in Egypt last month, he confessed that the terrorist had met with Iranian Intelligence officials in Peshawar before carrying out the bombing. Another suspect in the case, 37-year-old Matarawy Mohammad Said Saleh was convicted in the US for heroin trafficking, though no link between the bombing and drug money has been established. In June 1990, however, reports surfaced that Islamic fundamentalist and Afghan prime minister Gulbuddin Hekmatyar was operating an opium refinery near the Pakistan-Iran border. Hekmatyar then offered sanctuary to Sheikh Omar Abdel Rahman the alleged mastermind behind the World Trade Centre bombing. Is it just coincidence that Peshawar is a transit point for both heroin and Islamic fundamentalists travelling to and from Afghanistan?

The Official Discourse Around PITA

Gopika Solanki
Gitanjali Gangoli

Official discourse on prostitution – legislative and legal debates and judicial attitudes – reveals a disturbing ambivalence towards the practitioners and the profession. Not surprisingly, laws on prostitution are formulated to neither give justice to prostitutes nor eradicate prostitution. Moreover, the ambivalence often results in the prostitutes, already oppressed and abused at various levels of society, being further subjected to demeaning treatment at the hands of the state apparatus.

THE issue of prostitution has been constructed in a rigid and limited manner in the official discourse around it. Here we have in mind some of the legislative debates in the Lok Sabha, judicial interpretation of the laws on prostitution, and the attitudes of the police in implementing these laws. We are looking at these three aspects not only as an academic exercise, but because of the relevance they have to the lives of prostituted women. Prostitutes, as marginalised and vulnerable sections of society, are in frequent contact with the police and the judiciary. The attitudes and biases of the enforcement agencies have a profound impact on the ways in which the prostituted women carry on their professions, and the way in which they view themselves and their profession.

It is our contention that the laws on prostitution are neither formulated to give justice to practitioners, nor do they attempt to eradicate prostitution. They are only about penalising and controlling it. The law explores the boundary between private, moral conduct and public order and decency. Hence, the act of prostitution is not a criminal offence, yet it is not sanctioned by the law either, reflecting an ambivalence.

The article is divided into three sections. The first deals with the legislation debates in 1986, when the Suppression of Immoral Traffic in Women and Girls Act, 1856, was amended to Immoral Traffic in Women and Girls (Prevention) Act, 1986 (PITA). The second examines judicial interpretations while the third analyses the operational aspects of the law through the police. Our study of the police is based in Mumbai, partly through interviews conducted in the Nagpada police station, chosen due to its proximity to the 'red light' area and through our experiences of working with prostituted women and the police.

Legislative Debates: The 1986 Amendment

The Indian legal system follows a particularly hypocritical attitude towards prostitution. On the one hand, it does not prohibit or abolish prostitution. Instead, it is targeted at trafficking and soliciting. Until 1986, the law governing prostitution was called Suppression of Immoral Traffic in Women and Girls Act, 1856, popularly known as SITA. In August 1986, there was a move to amend it so as to change the focus of the act from 'suppression' to 'prevention'. A critical survey of the legislative debates reveal a number of interesting insights into the official discourse on the issue of prostitution and attitudes towards prostitutes.

SITA was sought to be amended for various reasons. The most significant among them being that it was not working, as this excerpt from a minister's speech introducing the bill brings out:

> A number of individuals, advocacy groups and women's and voluntary organisations working for women, have been urging upon the government to enlarge the scope of the act, to make penal provisions more stringent, and to provide for certain minimum standards for correctional treatment and rehabilitation of the victims. In view of this, and the several gaps and lacunae noticed in the conceptualisation of the act, and the growing commercialisation of the flesh trade in different parts of the world, the present amendments are being moved [Margaret Alva, Lok Sabha Debates, August 22, 1986:141].

The proposed changes aimed to widen the scope of the act to cover all persons, whether male or female who are exploited sexually for commercial purposes. Appointment of special police officers with powers over the entire country was recommended. If a house was found being used for prostitution, the tenant, lessee or occupant was to be held responsible. Provision of women police officers during a raid, or as a substitute, a woman member from a registered welfare organisation or institute as a substitute was suggested. A compulsory medical testing by a registered medical practitioner of persons recovered from the premises of a brothel was mentioned.

In spite of all these stringent measures, as in the earlier act, prostitution *per se* was not criminalised. It was the act of soliciting that was an offence. The client was left untouched as before.

During the course of the debates in the Lok Sabha, a number of legislators expressed their scepticism about the viability of these proposed changes.

> ...one has to wonder why after such a law has been on the statute book for such a long time and I think it was in 1956 that the law was first enacted and in 1978 some amendments came and even then the inadequacies are still there, the loopholes are there and they are so wide that really speaking, the law has been more or less ineffective till now...we would certainly expect that the present amendments will fill up the loopholes but whether they are doing so, that we still do not know because we are not sure as to why the act has been ineffective so far [Amal Datta, Lok Sabha Debates, August 22, 1996:150]

There is an ambivalence in the attitudes towards practitioners of prostitution. On the one hand, there is a degree of 'sympathy' which is expressed in being patronising towards prostitutes such as describing them as "some unfortunate girls (who) come out of the houses for bad behaviour of family members or any other reason" [Phulrenu Guha, ibid.147-48]. Their experiences are sentimentalised. "Tears will roll down your eyes if you hear as to how they are subjected to exploitation" [G S Rajhans, ibid:153].

On the other hand, the debates reveal another aspect – the women within prostitution are also projected as 'bad' women

> Another feature of this Bill is that the nomenclature of the Bill which was very ridiculous has been changed. The Suppression of Immoral Traffic Act which was popularly known as SITA has been changed. I remember in courts of law so many hundreds of SITAs used to stand and we used to refer (to) them as Sita No 1, Sita No 2 and Sita No 3. It is very rightful that those names have been changed [Shantaram Naik, ibid:157-58].

In spite of the sympathy for such women Naik expressed later in his speech, he displays a heartfelt relief that prostitutes are no longer called by the hallowed and respected name of Sita, the icon of Indian womanhood.

Reference to prostitutes in many cases contain a voyeuristic tinge and makes sweeping statements about their lives and attitudes.

> The call-girl is a more anxious person than a prostitute. Unlike the latter, she practices prostitution in a clandestine manner, in a strenuous effort to appear respectable in society, which overtaxes her. Like a prostitute, however, a call-girl has a more pronounced negative attitude towards family, parents and

authority, than girls leading a normal life [Mool Chand Daga, ibid:161].

During the course of the debates, some allusions are made to a mythicised past, where India is romanticised as a country where women are held in high esteem.

> It is a part of our culture that sex related violence against women and children should be opposed and put down. Gandhi used to say that the people's blood should boil when they see a woman insulted or a child abused. But it does not happen any longer. This shows our cultural degradation [T Kalpana Devi, ibid:144].

Not much attention is focused on the ways in which 'rehabilitation' of prostitutes can take place, even though it forms a vital part of the amendment. A detailed allusion to this is by Margaret Alva, the minister responsible for the amendment. But her reference is indirect and descriptive, focusing on her experience in a village in Madhya Pradesh where through her efforts some minor girls were married. The village was known to be the source of supply for brothels.

> I was there a few months ago, we were women staying in these villages and we had the marriages of 29 girls celebrated just a few months ago there are such powerful forces who are prepared to fight any effort at rehabilitating these girls and trying to get them into other professions. Lands were given (*sic*) to young men who married them, we gave jobs to some, loans to others to encourage them to marry these girls [Alva, ibid 173-74]

What emerges from this account is that marriage is seen as the only respectable option for potential and real prostitutes, even if they are minors. Granting loans to minor girls for their education and economic independence by the government could have been another effective measure. But for the powerful state machinery, minor girls are either potential wives or potential prostitutes.

These legislative debates in many senses reveal the ambiguities in the official discourse about prostitutes. Significantly, in spite of including men and boys within the ambit of this law, there is little debate around them. What is focused is the female prostitute, whether as a minor or an adult. The tokenist inclusion of men, to tilt the balance, is quickly forgotten as soon as it is brought in.

Perceptions of Judiciary

Judicial attitudes towards prostitutes are no doubt worthy of study, but it may be interesting to begin by looking at the reverse, i e, the attitude of prostitutes. According to a study conducted by the Central Social Welfare Board, prostitutes viewed representatives of the judiciary as being apathetic to their plight. "They do not consider us as human beings... They add to our harassment and humiliation... They fail to understand the human aspects of the problem. They perceive it as (a) law and order problem'" are some of their remarks (quoted in *Prostitution in Metropolitan Cities of India*, a study by Central Social Welfare Board, New Delhi, 1996:86-87).

These attitudes are not unjustifiable. A closer look at some judgments on prostitution since the 1960s reveal that judges have displayed attitudes ranging from pity to contempt. In a recent judgment on child prostitution, judge Ratnavel Pandian refers to children within prostitution as both 'unfortunate' and as 'girls in full bloom'. The language used is prurient and voyeuristic, even as it seeks to convey sympathy for the minor girls (In the Supreme Court of India, Criminal Original Jurisdiction Writ Petition (Criminal) No 421 of 1989:2). A moral tenor is apparent, as brothels are referred to as "abodes of ill fame". Speaking of the Immoral Traffic (Prevention) Act, 1986, he states that this act aims to 'rescue the fallen women and girls and to stamp out the evils of prostitution and also to provide an opportunity to these fallen victims so that they could become decent members of society" (ibid:7). The focus is on the "violation of all canons of morality, decency and dignity of humankind", and prostitution is seen as "perpetuating and contributing to all kinds of unthinkable vulgarity" (ibid: 3, 4). Nowhere in the judgment is there any reference made to the physical and mental violence experienced by the minor girl.

Besides, there have been cases of misuse of powers by the judges. During a case in 1990 in Bombay, a magistrate summoned a lawyer fighting a bail case for a prostitute and asked him to send one of the women to him (based on Jean D'Cunha in the Report of 'The National Consultation on Child Prostitution' held in Bombay, December 1-3, 1994:20).

However, some of the earlier judgments under the SITA show a degree of sensitivity to the issue of prostitution. In one case, Gurudev Kaur was detained in a protective home as her family members (brothers and husband) alleged that she was a prostitute. Gurudev Kaur in her statement held that she wanted to live alone. She feared for her life at the hands of her brother. Justice H R Khanna of the Punjab High Court directed that since Gurudev Kaur was a major and had not applied for admission in a protective home, under S 19(1) SITA, she could not be detained against her wishes in the protective home. He held that an order under S 19(1) could not be made only on an application made by the concerned (AIR 1963, Punjab 369 V50 C101).

Another laudable judgment was passed in 1962. In this case, the police employed a decoy in the guise of a customer, who went to a brothel in Madras and had sexual intercourse with a prostitute. The rest of the police team and two witnesses barged into the room and arrested the prostitute, the pimps and the brothel keeper. All this in order to prove that the woman was a prostitute and the house, a brothel. The judge condemned this method of investigation by the police, stating, "In my mind, nothing can be reprehensible than the conduct of this investigation... Such investigation will not have any salubrious effect upon the public mind and will not achieve the objective for which the act was passed" (AIR 1962 Madras 31 V49 C6).

The judge held that the action of the police barging into the bedroom, without even a knock, was tantamount to outraging the modesty of a woman under S509 IPC and stated, "I must reiterate that the modesty of a prostitute is entitled to equal protection with that of any other woman". He felt that the manner of conducting the raid should be changed and revolutionised to prevent the abuse of power by the police (ibid:35).

Justice Anantanarayanan acquitted the prostituted woman, by holding that "the purpose of SITA is to inhibit or abolish the commercialised vice, namely, the traffic in women and girls for purpose of prostitution as an organised means of living. The idea was not to render prostitution *per se* a criminal offence or to punish a woman merely because she prostitutes herself" (ibid:33).

Perceptions of the Police: PITA and Prostitution

'The culturally sanctioned and dichotomous views of prostituted women and their role are embodied in political institutions, as seen in the cases of the legislative body as well as the judiciary. The police as an implementing agency continue to mirror and perpetuate these processes. The interviews with the police revealed conceptual, structural, attitudinal as well as operational ambivalence of the police system regarding the issue of prostitution.

Majority of the police personnel interviewed perceived prostitution as a 'social evil' that was also necessary for a 'healthy society' "We need prostitutes so that women like you can walk safely on the streets. Actually, we say that prostitutes are social workers" (Ajit Wagh, senior police inspector, Nagpada police station). The logic behind the assumption being that since men's uncontrollable sexual urges would be channelised through prostitutes, 'other' women will be able to lead lives free of sexual violence from men. This categorisation of the 'bad' woman, the prostitute and the 'good' woman, the respectable wife, mother and daughter binds women rigidly to their various roles and disallows any role transgression.

Besides, dual morality inherent in the act creeps into the implementation by the police as well, "while the act does not ban prostitution, it makes it difficult for women to practice. A woman cannot practice prostitution within 100 metres of public place.

In a congested city like Mumbai, it would be impossible for any woman to practice flesh trade" (senior police inspector, Nagpada police station, commenting on PITA).

As there is no precise definition of a "prostitute" in the act, any lone woman walking on the streets can be termed as such. "The police need a search warrant to search a brothel. No such legality is necessary to book a sole woman out there 'soliciting'" (police inspector, crime, Nagpada police station). The term 'soliciting' is also vague and can be used to penalise any woman at home too. The police admit that sitting at a window or standing in the balcony and gesturing peculiarly can also be technically interpreted as 'soliciting'.

While most of the police personnel admit that women enter the profession because of poverty, some do it also for fun, especially the call-girls, who have an element of choice. Like the judiciary, the attitude of the police expresses pity coupled with speculations of wild sexuality of the prostitute.

According to the police the difference between SITA and PITA at the implementation level lies merely in the name. At the level of the police station, nothing has changed. Two senior police officers remembered the amendment vaguely, while others were not aware of the fact that PITA was an amendment of SITA.

Not surprisingly, one of the criticisms levelled against the police is that the police are not conversant with the act and therefore do not charge the criminals under appropriate sections. On being asked, "Under which section will you charge a pimp?", a police officer at Nagpada police station replied, "Under PITA, of course". "And if he has raped a woman/minor girl?" "Madam, it all comes under PITA anyway, but if the girl states that she has been raped explicitly in her FIR, then we may include the charge under S 375, IPC".

It is observed that the police can be notoriously insensitive while filing an FIR and girl or a woman may not be willing to talk about her experiences of violence to them. Besides, women have been forced to sign on FIRs by the police even when they have not been faithful to the women's version of the events.

The police seemed to view their job as one where they nab the criminals and bring them to justice. This narrow perception of their work leads to indifference and apathetic attitudes towards the victims. For instance, there is excessive importance given at the police station level to conduct raids to rescue women and girls, and to catch the brothel-keepers and the pimps. A police officer who did not know PITA well, gave a vivid description of how the police employ a decoy, who poses as a client and then the rest of the team moves in to arrest the prostitutes, the brothel-keeper and the pimps, and rescue the minors. The manner in which these raids are conducted shows that the police are oblivious to the needs of the victims. This was glaringly evident in the raids conducted by Mumbai police in response to the Bombay High Court order to rescue minor girls forced into prostitution earlier this year. The verbal reports of social workers from Mumbai-based organisations like Prerna, Prayas, Mahila Dakshata Samiti, to the National Commission for Women point out, "though the high court order was to rescue minor girls, the police rounded up adult women as well. Women were not even allowed to take their children. They were not allowed to pack their belongings either, with was a financial blow to many of them who had managed to save and hide some savings for a rainy day." Not only that, even in custody, there was an instance where these women were beaten up by the police in St Joseph's Home, one of the institutions where they were housed. The other reported incidences of some male police officers sexually harassing these women with leering looks and sexually suggestive derogatory comments. One of the police personnel from Nagpada had even suggested to the pimps to "take out a demonstration of prostitutes if they wanted their girls to be released" (personal communication from activists of 'Prayas').

The social aspect of policing is also conspicuously absent in the police work. The police perceives reality in black and white terms, leading to negligence of other tasks. For instance, it is the duty of the police to refer the 'rescued' women to appropriate shelters. However, most police officers were unclear about the differences between reception centres and shelter homes for rehabilitation. In a police raid in 1992, a minor girl was sent to the reception centre for elderly women at Deonar, instead of the Juvenile home at Dongri. The 13-year girl was traumatised since it led to certain procedural problems of the shelter authorities not being able to give consent for abortion. Emotionally, too, she remained insecure among the older women. Technically, this problem should have cropped up as all the police stations have a directory along with the names, telephone numbers and addresses of the social organisations. However, the directory is rarely used, due to complete disregard for the social aspect of policing which calls for caring the victims and referring them to suitable organisations.

The police personnel reply at length on the difficulties to prosecute the prostitutes, brothel-keepers and the pimps. According to them, prostitutes who get caught are bailed out by the pimps and then have to repay them by increasing their labours once they are back into the same circuit. At other times, some women or girls who are rescued and sent home, refuse to come again to give evidence as witnesses because of long distances or fear of being exposed in a community they currently reside in or being engaged in other activities back home. Often they keep on shifting and hence are difficult to track down. The police as a result get demoralised and resist to register cases under PITA. The police are indoctrinated that it is their duty to catch the wrongdoers and develop a strong sense of justice. But they often get disillusioned when their hard work does not yield results, and the accused gets away scot-free.

The method of implementation of the law on prostitution needs to be problematised. The emphasis of policing, traditionally defined as prevention of crime and maintenance of law and order, needs to be broadened to include social aspects of policing. The police training needs to be periodical and decentralised to avoid excuses such as "I am new to the police station and therefore not familiar with area, specific issues and modes of intervention". Moreover, police training module should include wider social questions about the effects of caste, religion, class and gender issues, and how the power relations embedded in them can be changed.

There are several commonalities in the official discourse. Prostitutes are seen as victims and viewed through a prism combining sentimentality and pity. At other times, the official gaze contains a strong tinge of voyeurism. In the legal rhetoric, the prostituted women are considered as offenders. While the law on prostitution does not prohibit the act of prostitution, by criminalising soliciting, it renders prostitution almost impossible to practise without the interference of the state. In this way, the inherent moral agenda of the state is fulfilled.

Though the prostitutes are oppressed at multiple levels -- by pimps and brothel-keepers, clients, families and the state machinery – decriminalising prostitution is the only way to prevent their oppression at the hands of the police and the judiciary. At the same time, stringent measures have to be taken to stop coercion and child prostitution, in which the victim is not penalised. Besides, the entire concept of rehabilitation of those peripheral in the society needs to be properly worked out. Patronising attitudes, lack of trained and sensitive personnel, lack of monetary and infrastructural resources render rehabilitation counter-productive.

However, decriminalising prostitution can serve at best as a short-term and immediate response to the issue. So long as women and their bodies are seen as sites of control and consumption, and divisions are made between 'good' and 'bad' women, prostitution will continue and choices denied to women.

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Towards a Doctrinal Synthesis

U Kalpagam

Property and Prices: Towards a Unified Theory of Value by Andre Burgstaller; Cambridge University Press, Cambridge, 1994.

IT is very rarely that one comes across a technical book in economics that is so fascinating and captivating as the one under review As its subtitle indicates, it is a grand project; and so is the conception and execution of the book within the format of stylised growth theory The book attempts to show that classical and neo-classical value theories have a symmetrical mathematical structure once the stock market is introduced. Thus it tries to reconcile the two great rivals in value theory while at the same time it integrates finance theory with capital theory

Treating asset arbitrage as the most foundational aspect of behaviour in systems in which property rights are alienable, as it remains invariant with all other optimising strategies, a stock-equilibrium condition is introduced to the usual flow-equilibrium analysis. The requirement of stock equilibrium or the arbitrage equation is that the owners of the economy's real resources are at all times satisfied with the composition of their portfolios, a condition that is ensured when expected rates of return on equities are uniform at all times The author views the arbitrage mechanism as more fundamental than the classical principle of uniform long-run rate of profit or the neo-classical principle of utility maximisation and flow-market clearing Despite the growing importance of financial capital in modern times, the author points out that it never acquired analytical status within economic theory, being largely consigned to the periphery of policy-oriented disciplines. I would have been glad if the author had at least foot-noted for the reader the manner in which the analytical status of the older models of 'Money in Growth models' that appear even in textbooks on growth theory such as Henry Wan Jr differ from his approach; this, need it be said, is only a very minor caveat.

The author does convincingly pose the question of what would happen in the classical Ricardian model if profit rates were equalised not merely across sectoral productive activities but across all forms of holding wealth as well. While Ricardo's failure to pose this question should not be surprising, the author is perplexed why general equilibrium theorists have not done either. Although Walras did introduce the stock market in his *Elements of Pure Economics*, the author finds the treatment muddled with the attempt to conflate the stock market with the loanable-funds market, in order to retain the flow-equilibrium perspective. At least in value theory the author notes, the stock-equilibrium perspective did not gain acceptance, although the macro-economics of Keynes did ultimately introduce it, with far-reaching significance in areas such as the theory of flexible exchange rates.

By introducing the distinction between immobile material resources and the highly mobile ownership claims on them, the author postulates a quasi-Hamiltonian system of the form given below·

$$x = \psi(\pi, x; a) \quad x = \psi(\pi, x, a)$$
$$\pi = \phi(\pi, x.a) \quad \pi = \phi(\pi, x; a)$$

where x is a vector of input allocations by sector, π a vector of prices of ownership claims, and "a" a vector of shift parameters. By making the assumption that existing resource stocks are immobile between alternative employments but ownership claims can be instantaneously and costlessly traded in a competitive market, the system's dynamic is propelled by the arbitrage equation. While the analysis omits the role of uncertainty, the author argues convincingly as to why under conditions of certainty, owhership claims are not reducible to the physical resources themselves. In line with the recent developments in value theory, the author believes that the problem of value has a recursive logical structure of three steps-asset arbitrage, optimisation and equilibrium.

Making the claim that this Hamiltonian system has enabled him to find the common theoretical core of classical and Walrasian economics, the author argues that his approach frees it from the criticisms launched against the Neo-Ricardian approach to classical theory inspired by Sraffa, in that their being confined to steady states are non-causal in nature and not anchored in arbitrary initial conditions, unlike the Walrasian system with their emphasis on given initial resource endowments and the sequence of non-steady state temporary equilibria. Similarly the non-substitution theorem that under certain conditions the relative prices are independent of the structure of demand, and the Ricardo-Bortkiewicz-Sraffa theorem that only technical changes in the production of basics affect the economy's rate of profit which figure in the Marxian and Neo-Ricardian approaches but not the Walrasian ones, makes sense in his Hamiltonian system. It needs however to be noted that author's use of basics and non-basics is different from Sraffa's. Whereas in Sraffa a basic is a produced commodity that enters directly or indirectly into the production of all commodities, and non-basics are those produced commodities that are not basic, for the present author non-basics are outputs that cannot be stored and hence non-accountable as input stocks. This approach has been necessitated to obtain the vector of fundamental asset prices needed for his Hamiltonian system.

His approach also enables the author to reopen the Cambridge controversies in a novel way. The author believes that the Arrow-Debreu model while highlighting utility maximisation and flow-market clearing removes to the shadows the 'competition of capitals' and the principle of uniform rate of profit, which are nonetheless analytically present though descriptively only implicit. He shows this by translating a simplified version of the Arrow-Debreu model into a classical arbitrage-based von Neumann economy

The author's general line of attack at doctrinal synthesis between the Walras-Fisher-Hicks-Arrow-Debreu tradition and the Ricardo-Marx-von Neumann-Sraffa tradition is to build a sequence of models with different assumptions about input reproducibility and output durability. The book is divided into two sections, the first set of models dealing with reproducible resources and the other, of models dealing with primary resources; all the models incidentally bears the names of figures most closely associated with it. Also the models have four sets of atomistic agents driving the system to temporary equilibrium and intertemporally optimal paths. These are the capitalists making the usual consumption, saving and capital accumulation decisions to arrive at flow-equilibrium via utility maximising exercises; the entrepreneurs ensuring that entrepreneurial profits are competitively driven to zero at each instant; the speculators possessing myopic and perfect foresight espouse their expectations to the other agents and thus always set the economy onto saddle-path stability; and the arbitrageurs playing the most crucial role in this approach of ensuring stock equilibrium by ensuring that clients' portfolios are efficient at all times, thus the stock market price is instantaneously moved to its temporary equilibrium price.

For purposes of clarity, I provide the assumptions of each model starting from the models in the section on "Reproducible resources". Von Neumann I contains only

basics as both inputs and outputs and is a pure stock-equilibrium two-sector, non-steady state, continuous-time version of the von Neumann 1946 economy. The production functions in this model are of the form of "specific-factors, single-technique Leontief technology" exhibiting a simple form of the Uzawa factor-intensity assumption. Von Neumann II and III relax the basic-only assumption of the earlier model and treats output as perishable instantaneously. Whereas in the earlier model consumer preference plays no role in price determination, now with output as non-basics, the point-in-time equilibrium price could be determined by Walrasian flow equilibrium. Also since output cannot be stored, there is no role for speculative activity. The Ricardo-Bortkiewicz-Sraffa theorem that seems to be at odds with general-equilibrium thinking is proved to be valid. Von Neumann III is an endogenous specification of Von Neumann II as it introduces a technology that transforms non-basics to basics. The Marx-Sraffa model introduces labour as a resource reproducible endogenously within the system keeping in line with the classical perspective. The Hamiltonian system is then shown to demonstrate Marx's falling rate of profit and Sraffa's inverse relationship between wage share and profit rate. The chapter on Arrow-Debreu model shows how it is isomorphic with the author's Hamiltonian system. In its attempt to show that, the chapter provides very rich insights into the entire developments in capital theory.

The section on "Primary resources" deals with the following models. Ricardo is a two-sector model and introduces land as a primary non-reproducible resource, a basic good, i e, the corn, and a non-basic Ricardian luxury. The model is shown to possess many properties, an interesting one being its similarity in structure with Pasinetti's two-sector Ricardian economy, although it differs from his through the incorporation of a stock market in land and is consistent with intertemporal consumption optimisation. The Ramsey-Solow-Uzawa model establishes its structural identity with the Ricardian model. It is the author's position that non-reproducible neo-classical labour mimics Ricardian land as an input. A corresponding stock market in labour is said to exist if ownership claims to human capital are alienable in the stock market in the absence of prohibitions against voluntary slavery. While the Ramsey-Solow model is one-sector, the Uzawa model is a two-sector adaptation of the earlier models of Uzawa and Srinivasan. Although neo-classical, the model obeys both the Ricardo-Bortkiewicz-Sraffa theorem as well as the Samuelson non-substitution theorem. When a Leontief technology is introduced, the Uzawa-Leontief structure, its dynamic features are similar to the Ricardo-Leontief model. The doctrinal circle of production models is closed by including one or several non-reproducible inputs in the Von Neumann I model, called here Walras and Capital. Walras I has two basics and a single non-produced resource. The model obeys the Samuelson non-substitution theorem in the long run. The temporary movement of prices is for reasons other than the Walrasian market-clearing argument, namely, to stock market disequilibria. Walras II deals with multiple basics and multiple primary resources. Given the multiple long-run scarcities in the economy, a long-run equilibrium is possible only if the growth rates of the primary resources coincide. Also the non-substitution theorem is not valid. An interesting supplement convincingly argues a flaw in Walras's capital theory. In Walras and Exchange the author argues his case as to why the reasons generally adduced for assumptions of "perfect factor mobility" may not be valid. His stock market approach enables him to counter the usual arguments that resource transfers are intractable of representation in general equilibrium models. Walras III presents a model in which primary inputs are intersectorally moveable over time via an investment process. Its limiting cases are perfect factor mobility and resource immovability. The latter case collapses into Walras IV which is the Walrasian model of pure exchange. It is the author's conviction that Walras's model of pure exchange in focusing exclusively on the terms at which agents are willing to trade endowments, fails to enquire into the conditions under which agents are willing to hold the ownership claims attached to the sources of these endowments. His stock market approach enables him to do that.

For all of these models, the author examines the temporary equilibrium and steady state properties. The models themselves are simple formulations, free of complexities such as variable rates of time preference, overlapping-generations structure, or non-linear specifications. Any reader with a knowledge of Hamiltonian dynamics, stability analysis and phase-diagram approach, an understanding of the logic of dynamic optimisation, an aptitude for the theoretical debates in economics with a specific liking for growth theory, and a fondness for the von Neumann classic paper will be able to read and appreciate this book. The extraordinary appeal of the book lies in the fact that technical virtuosity is subordinated to the larger philosophical endeavour.

Responses to Ozone Depletion

K Ravi Srinivas

Mending the Ozone Hole: Science, Technology and Policy by Arjun Makhijani and Kavin R Gurney; The MIT Press, Cambridge, USA, 1995; pp 356 + index, $ 35 (hard cover).

THE stratospher, which surrounds the earth at a height of 25 kms, is rich in ozone. Ozone prevents the reaching of sun's ultra violet rays (UV-B) to the earth. UV-B can adversely affect all life on earth, including marine life, plants, birds and of course humans. In 1974 Rowland and Molina put forward a hypothesis that chlorinated compounds could persist in the atmosphere long enough to reach the stratosphere and could result in destruction of ozone. This was proved by subsequent research, and the discovery of the Antarctic ozone hole in 1985 led the nations to come to an agreement on controlling chlorofluorocarbons (CFCs) and other ozone-destroying substance(s) (ODS). In 1987 the Montreal protocol on substances that deplete the ozone layer was signed. This protocol is perhaps the first international agreement which was widely accepted by almost all nations. As a result of the protocol, the consumption of CFCs, halons, methyl chloroforms and carbon tetrachloride had been dramatically reduced and the developing nations have time till 2010 to end their consumption. Still not all ODSs have been phased out in industrialised nations. For example, methyl bromide continues to be produced and used. According to United Nations environment programme (UNEP), methyl bromide, a fumigant used to kill pests in soil, agricultural produce, etc, is responsible for about 5 to 10 per cent of world wide ozone depletion.

Authors of this book have attempted to provide an overview of the ozone layer depletion, its causes, the scientific understanding of the issue, the technological options and the policy issues. This book is written with an interested reader in mind and hence the authors have tried to explain various aspects, without intimidating the reader by resorting to technical jargon, as much as possible.

The first part deals with the mechanisms of ozone depletion, and health, environmental and epidemiological impacts of the depletion of ozone layer. They point out that there is

no need for complacency and delaying the phasing out of ODSs will only do more harm. They discuss the effects of ozone depletion on human health and point out that, Severe persistent declines in stratospheric ozone could seriously damage life on earth. For instance, disease epidemics could be triggered by a combination of decreased immunity, declining food production, and the direct disease-producing effects of UV-B radiation. These could be so serious as to greatly strain or even overwhelm the ability of economic and medical systems to respond, particularly in third world countries. As we have discussed, severe depletion could also disrupt ecological systems considerably, with unknown effects" (p 88).

In the eight chapters in the next part the authors provide a detailed description of various sources, uses and alternatives to ODSs. They examine the uses of ODSs before 1985, i e, before they were subject to regulation They point out that till 1988 at the international level the focus was mostly on regulating CFCs, and carbon tetracholoride was added in 1990 No explicit overall goal has been set in the guidelines to regulate ODSs

The authors discuss the effectiveness and limitations of various policies for regulating the production and consumption of various ODSs. Since ODSs are used in diverse applications ranging from air-conditioning and refrigeration to use as solvents, foam products, the authors discuss the present state of the art, potential alternatives and the recommended phase out schedules for ODSs in various applications.

The regulations and policy framework, impact of various measures in the light of three scenarios, estimates by the authors and summary of findings and recommendations figure in part III. After critically examining the regulations and available technologies for phasing out ODSs the authors conclude that by and large regulations have played an effective role in development of alternative technologies. They advocate levying taxes on the use of ODSs in industrialised nations In the next chapter they discuss the features and implications of the three scenarios (Copenhagen Amendments scenario, the Accelerated Phaseout scenario and the Save Our Skins scenario), and their assumptions. The Saving Our Skins scenario is considered by the authors as the most stringent technically feasible strategy to control ODSs.

They evaluate the response of the industry, particularly how the industry in USA responded to the issue of ozone layer depletion. The industry did abandon research and development of alternatives to CFCs although they were aware of the impact of CFCs on ozone layer. Until governments and citizens groups put pressure on them, for industry it was business as usual. According to the authors, 'It seems clear that corporations did not internalise even minimally the social and economic costs of the harm done by their products, until governmental regulations and citizen pressure forced them do so' (p 272). In contrast to the behaviour of the US companies, the corporate sector in Sweden collaborated with the government and as a result substantial progress in reduction in use of CFC was possible and development of alternatives was also given priority. But in the US due to weak regulatory regime, companies did not give importance to development of alternatives and much money was spent on conversion to HCFCs than to the development of alternatives to ozone depleting chemicals and technologies. Thus, the regulatory regime plays an important role in not only influencing corporate investment but also in making the industry aware of its responsibilities.

By writing a comprehensive volume that covers almost all the aspects of the depletion of ozone layer the authors have made enormous amount of data and incisive analysis available in a single volume This will benefit readers who want to get a comprehensive overview of the problem, scientific explanations, technological alternatives and policies, but may have neither the time nor access to the vast literature on the subject.

The authors could have taken into account different schools of thought on the interaction between science, politics, knowledge and power in global environmental regulations and the implications of the same for policy and strategy. They could have put forth their views on such approaches to international environmental regulations. The science politics interface in ozone depletion issue has not benn critically evaluated by the authors. Recent works have argued about the role of science in international regime formations and how networks of knowledge-based communities play an important role, articulating the issues and relationships, frame issues for debate and set the agenda for policies and influence negotiations.[1] I wish that the authors could have provided more details about the evolution of international regulatory framework, particularly the North-South conflict.[2] The role of environmental groups and NGOs in international environmental issues and their role in the international environmental negotiations is widely acknowledged now. A chapter on their role, their strengths and limitations and role of grass roots groups in influencing corporate behaviour and governments regarding ozone layer depletion could have been added. This will be relevant as, for example it was the campaign by grass roots environmental groups that forced McDonald to get rid of styrofoam sandwich packing (interview with Lois Gibbs in *Multinational Monitor*, April 1996).

This volume is a valuable contribution to the literature on global environmental issues. It will be useful to NGOs, scholars and concerned citizens. One hopes that the publishers will bring out a cheaper paperback edition of this book.

Notes

1 For example, refer to 'Structure and Agent in Scientific Diplomacy' Tora Skodvin-Working Paper 1994 14, CICERO, University of Oslo and reviews of 'The Ozone Discourses' (by Karen T Liftin) in *Alternatives Journal*, vol 22, no 3, July-August 1996 and in *The Ecologist*, vol 26, no 2, March-April 1996

2 For example, refer to 'The Environment in International Relations' Caroline Thomas, Royal Institute of International Affairs, 1992, for an interesting analysis of this issue.

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Private Schooling in India
Size, Nature, and Equity-Effects

Geeta G Kingdon

Published educational statistics in India ignore 'unrecognised' private schools and include only the 'recognised' private schools, though all government-funded schools are included. Moreover, enrolments in government-funded schools are greatly over-reported in education data. This article argues that, as a result, official education statistics are seriously skewed: they exaggerate the size of the free, government-funded elementary school sector and greatly understate the size of the private fee-charging elementary school sector. While it may be expedient for the state to exaggerate its own contribution to school education, a system where fee-levying institutions have a significant role in elementary education while secondary education is largely state-supported has perverse equity-effects. The article also presents evidence to show that official enrolment statistics – on which analysts, policy-makers, and international studies rely, and which are used in parliamentary debates – are gravely inaccurate.

I
Introduction

THE desirability or otherwise of private education has long been a subject of debate in India and the case of Mohini Jain [Sathe 1992] against a private capitation-fee college has renewed interest in the issue. Yet, the nature, size and equity-effects of private education are not well understood, and it is not known whether and to what extent this sector has expanded or shrunk over time at different levels of education

At present there is no consensus on an estimate of the size of the private school sector in India. On the one hand, prominent education economists believe that the private fee-levying (i e, the Private Unaided) school sector in India is 'infinitesimally' and 'negligibly' small [Tilak 1990:35, Govinda and Varghese 1993:51]; on the other hand, government of India [GOI 1993:4] states "no doubt large numbers of private schools have been opened since independence" and that "there is an increasing incidence of the so-called English-medium [private] schools" [GOI 1985:53]. In this paper we explore which of the above two opposing views is correct and focus on the following questions: What do the official educational statistics tell us about the total size of the private schooling sector and about the relative size of elementary and secondary private schooling? How reliable are these statistics? Is the private education sector expanding and at what rate?

In much of the existing literature in India, private schools are characterised as elite, high-fee schools that cater only to the children of the rich in urban areas. This is not supported by primary survey evidence, which suggests economic and geographic heterogeneity in private schools. In this paper we probe this issue further and present some evidence that challenges the conventional portrayal of Indian private schools as elitist and mostly urban. Knowledge of the nature and relative sizes of free and fee-charging schooling at different levels of education can shed light on how equitable the system of education is as a whole. For example, a system where (given public resource scarcity) the provision of primary education is predominantly government-funded and free – though some fee-charging provision exists in secondary and higher education – is likely, in principle, to be much more equitable than a system where fee-charging institutions have an important role in primary education and an insignificant one in secondary and higher education.

This paper examines evidence on the nature, size, and growth of fee-charging private education in India, with special reference to one state – Uttar Pradesh (UP). Given interstate variations in the structure and organisation of education in India,[1] evidence from a single state will be illustrative but not necessarily representative. However, where possible, we present evidence both for UP and for India as a whole, including occasionally for separate states. This enables us to observe the extent of interstate variation in the role of fee-charging schools. A particular focus of the paper is on the relative size of private schooling at the elementary and secondary education levels and on the implications of this for educational equity.

The following section defines the concepts and terminology to be used in the paper. Section III analyses the nature of private education in India and Section IV presents evidence on the size of the fee-charging sector in education in UP. Section V presents figures on the relative size of the private elementary and secondary education sectors. In Section VI we examine the equity consequences of the prevailing mix of fee-charging and free schools in elementary and secondary education. The final section concludes.

II
Definitions, Terminology

In UP, as in most states, primary education refers to classes 1-5, junior to classes 6 to 8, elementary (or basic) to classes 1-8, and secondary to classes 9-12. It is important to note the distinction between private aided (PA) and private unaided schools (PUA), even though in much of the educational debate in India the two are treated as a single category 'private'. PA schools are those which, though privately managed, are heavily regulated by the state government[2] and are almost entirely funded by the state: 95 per cent or more of PA schools' total expenses are paid by the state exchequer [Tilak 1990:34]. Being primarily government-funded, PA schools have become semi-government schools.[3] Like government (G) schools, PA schools cannot recruit or dismiss their own staff; for example, in Uttar Pradesh, the UP Government Education Service Commission selects and appoints their staff. The state government pays the full salaries of all PA school staff at the same rates as for government school teachers. Importantly, PA schools, like G schools, cannot charge any tuition fees even in secondary classes.[4] Thus, both G and PA schools are free schools and are state-supported.

By contrast, PUA schools operate autonomously and are entirely self-financed. They recruit, pay, and discipline their own staff and they do de facto charge tuition fees, though in UP, as perhaps in other states, they are supposed de jure not to. In vital ways, therefore, PA schools differ from PUA schools despite sharing the appellation 'private'.[5] This paper is concerned with the size and growth of the PUA schools which are the truly 'private' schools. In the rest of this paper, PUA schools are referred to as

private or PUA schools while G and PA schools, which are the free schools, are referred to as GPA or free schools.

A further crucial distinction should be noted for the purposes of understanding the issues in this paper, namely, the difference between 'recognised' and 'unrecognised' PUA schools. State government recognition is an official stamp of approval but it requires certain conditions to be fulfilled.[6] While all PUA secondary schools must be recognised, elementary schools do not have to be recognised in many states. Indeed, as Dhingra (1991) points out, in many states, elementary schools do not even have to be registered, let alone be government-recognised.

The main reason for wanting recognition is to become eligible to apply for government grant-in-aid and to be able to issue valid transfer certificates (TCs) to students leaving the school. However, few PUA schools want to apply for government grant-in-aid to become PA since it brings them under state regulation and removes the possibilities for private managers to charge fees and derive pecuniary benefit from their school.[7] The TC of a recognised school is required in order for a child to gain admission to another school. In practice, however, valid TCs are not indispensable for admission to a junior school but appear to be needed for admission into secondary schools. Consequently, PUA primary schools do not have any important incentive to seek recognition but PUA junior schools do

Given the stringent conditons for recognition as listed in footnote 6, it is likely that many applications for recognition are turned down Dreze and Saran (1993:39) report that rural private schools found it difficult to obtain 'manyata' (recognition) in and around Palanpur, UP. In any case, conditions such as that the private school seeking recognition should not be situated within a 5 km radius of an existing G school, preclude many PUA schools from even applying for government recognition. The fact that certain conditions are mutually impossible to fulfil (such as charging the government prescribed (nil) fees and paying teachers the high prescribed minimum salaries) would also serve as a discouragement to private school operators seeking recognition.[8]

In conclusion, given the onerous conditions of recognition and the scant benefits thereof, there are few attractions to obtaining government recognition, particularly for primary schools.

III
Nature of PUA Schools

The general perception that PUA elementary schools are only a very small proportion of all elementary schools in India gains support from notions imparted in the existing literature, such as that PUA schools charge high fees, are mainly an urban phenomenon, and cater only to the children of the elite. For example, government of India [GOI 1993:4] states that private schools "opened since independence are located mainly in big cities and towns only to cater to the needs of ever-rising ambitions of middle class parents who can afford to pay high fees for such types of schools". Similarly, education economist Tilak (1990:37) says "private institutions practice exclusiveness through charging high tuition fee and alarmingly large capitation fees or donations... The tuition fees in the private institutions are so high that few lower and middle class house-holds can afford even to apply for admission in these schools". In a similar vein, Govinda (1995:14) thinks that private primary schools in urban areas "are the preserve of children of wealthy parents who can pay high fees".

However, the observation that PUA schools cater only to the economic elite appears to be contradicted by recent research from different parts of India which suggests that private fee-charging education is extremely heterogeneous, drawing its clientele from across the social spectrum. For example, Kingdon (1994) finds that in a sample of 10 recognised PUA schools in urban Lucknow in 1991, monthly tuition fee varied from Rs 20 to Rs 240 in different schools and that within the PUA school sector, schools differed very markedly in their level of resources and teachers' salaries, and in the socio-economic background of their students.

Many researchers have found that PUA schools serve poor areas in India. For instance, based on his field study of education in Baroda slums, Jain (1988) observes that "the field of pre-primary education is replete with non-official enterprises" and that private operators charge between Rs 20 and Rs 50 per month as fees in slum areas of urban Baroda. Nautiyal (1993) notes that 9 per cent of boys and 5 per cent of girls enrolled in Delhi slums attended PUA schools. Based on their survey of schools in New Delhi, Chadha and Singh (1988) find similarly. They say "what is incredible are the absolute [low] levels of income at which demand for private schooling exists. It is incredible because government schools are virtually free". Nor is the phenomenon of private fee-charging schools confined to urban areas. According to Shiva Reddy [1991:374], "even at the primary level many children from rural areas attend private schools in urban areas. Because of the deterioration in the quality of publicly financed schools, private (convent) schools are spreading even in remote areas". Dreze and Gazdar (1996) also find that in rural UP, many parents send their children to study in PUA schools.

In short, despite contrary notions, it appears that PUA schools are more pervasive and more heterogeneous than thought hitherto, and that they serve children from all social strata and not only the elites.

IV
Size of Private School Sector

A central tenet of this section is the fact that unrecognised PUA schools are not included in educational statistics and that, consequently, published official statistics seriously underestimate the role of fee-charging schools in elementary education. The government of India [GOI 1993:4] itself acknowledges "no doubt large numbers of private schools have been opened since independence but ... many such schools are unrecognised and are not covered under the existing system of collection of educational statistics". According to Dhingra (1991) since registration and recognition of PUA schools is not mandatory in many states, officials have no way of knowing their numbers.

It appears that the number of PUA elementary schools, and most particularly PUA primary schools, may be much greater than that recorded in official statistics because these statistics omit the mushrooming unrecognised schools. For example, Kingdon (1994) reports that discussions with persons who are knowledgeable in the field of education in the Lucknow district of UP suggested that there were several 100 PUA primary schools in urban Lucknow although government statistics reported only 42 recognised PUA primary schools [GOUP 1991:472, Table 54]. Given the exacting conditions for and the scant rewards of recognition, it is not surprising that most PUA primary schools choose to remain unrecognised. This suggests that official

TABLE 1: PERCENTAGE SHARE OF RECOGNISED PUA SCHOOLS IN ALL SCHOOLS BY AREA AND LEVEL

School Level	UP (Per Cent)		India (Per Cent)	
	1978	1986	1978	1986
Rural				
Primary	1.9	2.9	0.8	1.0
Junior	24.6	31.6	3.3	5.0
Secondary	7.1	8.2	2.2	7.8
Urban				
Primary	21.1	34.4	9.2	16.6
Junior	33.0	51.9	11.9	24.4
Secondary	4.3	5.4	7.2	14.7
Rural+Urban				
Primary	3.7	6.8	1.6	2.6
Junior	25.9	35.5	4.7	8.6
Secondary	6.1	7.2	3.6	10.0

Source: Computed from NCERT (1982) Tables 49 and 55, NCERT (1992) Table 53 and UP Report of Fourth All-India Education Survey (GOUP 1982).

statistics hugely understate the numbers of PUA primary schools.

However, even according to official statistics PUA schools have considerably more than a 'negligible' or 'infinitesimal' presence in school education. That is, although official statistics underestimate PUA schools' role, the recognised part of the PUA education sector is significant in its own right in UP (both urban and rural) and in urban India. Table 1 shows the percentage share of recognised PUA schools in all schools in 1978 and 1986 in UP and in India.

Although the proportion of PUA schools has risen in both rural and urban areas, their size as well as growth in urban areas is particularly remarkable. Table 1 shows that in urban areas within a span of just eight years, PUA primary schools grew from having a 9 per cent share of all primary schools in urban India to having a 17 per cent share. At the junior level the growth is even more impressive, taking PUA schools' share in all junior schools from 12 per cent to nearly a quarter of all schools in urban India. In certain states the PUA sector in urban areas is larger than either the G or the PA sector. For example in urban UP, PUA junior schools represent 52 per cent of all junior schools. The share of PUA primary schools (at 34 per cent of all schools) and that of PUA secondary schools (at 15 per cent in urban India) are not inconsequential either. If the rate of growth of PUA schools between 1978 and 1986 has continued then, a decade from 1986, the percentage share of PUA schools is likely to be much greater than that indicated in Table 1.

Another way of illustrating the impressive growth in the role of PUA schools is to compare the growth in enrolments in PUA and other school types over a period of time. Table 2a shows the growth in number of students in schools of different management-type between 1978 and 1986 in urban UP. It shows that, in terms of absolute numbers, enrolments in PUA primary schools rose by 4,18,403 and enrolments in G and PA primary schools rose by a much smaller 1,37,177 (188485-51308). That is, enrolment in recognised primary PUA schools grew three times as much as enrolment in G and PA schools. Put another way, 75 per cent of the total increase in primary enrolments between 1978 and 1986 was absorbed by PUA schools! Similarly, enrolment in junior recognised PUA schools grew by one and a half times more than the enrolment in junior G and PA schools. Thus, in junior education, 64 per cent of the overall increase in pupils was accomodated by PUA schools! In other words, the role of PUA elementary schools grew very rapidly between 1978 and 1986, though it is noteworthy that the role of PUA secondary schools grew only a little; they absorbed only 13 per cent of the overall increase in secondary enrolments over the period.

The equivalent figures for urban India (in Table 2b) show that, in primary education, PUA enrolments grew twice as much as G school enrolments and thrice as much as PA school enrolments. Consequently, 57 per cent of the total increase in primary enrolments between 1978 and 1986 was absorbed by PUA schools! Again, as in urban UP, it is mainly in primary and junior education that the private fee charging sector is booming: the PUA sector did not dominate the growth in secondary level enrolments.

Thus, by official figures, there has been a momentous growth of PUA elementary school enrolments. However, even so, these figures underestimate the true growth of PUA elementary school enrolments which is actually larger. They underestimate the growth and size of the PUA school sector not only because they relate merely to the recognised part of the PUA sector but also, very importantly, because they exaggerate the growth and size of GPA elementary enrolments due to the large-scale over-reporting of student-numbers. The share of the PUA sector in elementary education may be much larger than what is conventionally believed.

Over-Reporting of Enrolments

In the published educational statistics, the relative roles of free (GPA) and fee-charging (PUA) schools in elementary education are skewed in favour of free schools not only because non-recognised PUA schools are excluded from the statistics but also importantly because the role of GPA schools is exaggerated by large-scale over-reporting of their student numbers.

Heyneman (1980) reports from source documents that in 1961, departmental enrolment figures for children below 14 were 20 per cent higher than the 1961 census enrolment figures for that age-group but the 1971 census data show that, "the discrepancy was twice as high – 41 per cent". It appears that over-reporting has worsened over time. The director of elementary education at the ministry of human resource development in India, compares enrolment ratios in official statistics with census results (Dhingra 1991). She states that the 1981 census data showed only 47.2 per cent of children in the age group 6-11 years as attending school as against a gross enrolment ratio of 80.5 per cent collected by the internal educational information system, suggesting that in 1981 departmental enrolment figures were 71 per cent higher than census figures! Even allowing for the fact that in their estimates of the gross enrolment ratio, departmental data include under- and over-aged children who are enrolled in the primary cycle, the discrepancy between departmental and census data is massive.

The above estimate of the extent of over-reporting of enrolments based on 1981 data is corroborated by a comparison of enrolment figures estimated in NSSO (1991:39) based on 1986-87 (42nd round) National Sample

Table 2a. Growth in Enrolments by Level and School-Type in Urban UP, 1978-86

Level	School-Type	1978	1986	Absolute Increase	Percentage Increase
Primary	G	8,72,731	10,61,216	1,88,485	21.6
	PA	2,11,409	1,60,101	–51,208	-24 3
	PUA	3,93,500	8,11,903	4,18,403	106 3
Junior	G	2,17,168	2,64,017	46,849	21.6
	PA	4,43,411	5,60,113	1,16,702	26.3
	PUA	1,09,724	3,96,178	2,86,454	261 1
Secondary	G	1,58,810	1,85,734	26,924	17.0
	PA	6,38,723	10,13,250	3,74,527	58.6
	PUA	19,440	78,971	59,531	306.2

Source: GOUP (1982:598-99), Table 128 and GOUP (1991:780) Table 137

Table 2b: Growth in Enrolments by Level and School-Type in Urban India, 1978-86

Level	School-Type	1978	1986	Absolute Increase	Percentage Increase
Primary	G	1,02,70,760	1,11,89,956	9,19,196	8.9
	PA	47,35,795	53,04,932	5,69,137	12.0
	PUA	16,63,969	36,17,791	19,,53,822	117.4
Junior	G	31,73,594	42,,72,930	10,99,336	34 6
	PA	33,36,413	38,74,078	537,665	16.1
	PUA	4,88,266	13,95,610	9,07,344	185 8
Secondary	G	18,08,870	26,79,760	8,70,890	48.1
	PA	26,87,164	39,06,889	12,19,725	45.4
	PUA	1,95,969	6,45,442	4,49,473	229.4

Sources: NCERT (1982), Fourth All India Education Survey, Table 149, pp 838-41.
NCERT (1992), Fifth All India Education Survey, Table 170, pp 1086-1115.

Survey data and those in departmental data for 1986 (NCERT 1992:1086-1115). NSSO estimates that only 67,968 thousand students were enrolled in elementary education in 1986-87 in India but according to departmental data, 113,186 thousand students were enrolled in elementary education in India in 1986. Thus departmental enrolment figures are inflated by 67 per cent. Other researchers have also recorded that enrol-ments in official documents in India are greatly over-estimated due to large-scale over-reporting, for example, Prasad (1987) and Tilak (1985:6-7, 16). Dhingra (1991) notes that

> continuous over-reporting by schools has bloated the enrolment figures to such proportions that the system is no longer brave enough to explore the truth or face the lie. The differences between departmental data and the census or National Sample Survey data are conveniently ignored since in any case, there is no strong objection in any quarter to the perpetuation of this absurdity. Its main effect is on educational planning, which under these conditions, has ceased to be taken seriously

There is a wealth of evidence of over-reported enrolments in micro-studies too In their study of primary schools in five districts of Madhya Pradesh, Govinda and Varghese (1993:128) state that "it is difficult to get accurate and reliable information from the school records as the enrolment figures given vary widely from the attendance figures". Dreze and Saran (1993:41) find that in Palanpur in western UP, out of an enrolled 54 students in the G primary school, only 25 students (or 46.3 per cent) were in school on the day of the survey visit in February 1993, though this may be partly due to low attendance. In Kingdon's (1994) data-collection too, some GPA schools reported enrolments in class eight that were four times as high as the number of students in attendance on the day of the survey. Prasad (1987) found that in Andhra Pradesh, "actual attendance during the days of the investigation was between 20-30 per cent of the impressive number of children found in the school records in most of the villages... however, the school records were manipulated to show over 60 per cent attendance".

While there are no reasons for PUA schools to wilfully misreport student numbers in the schools' returns, there are strong incentives for G and PA schools to exaggerate enrolments. Firstly, teachers are meant to be allocated to GPA elementary schools on the basis of a pupil-teacher ratio of 40:1. Secondly, PA schools' non-salary (admittedly tiny) grants are based on self-reported student numbers in the schools. Thirdly, school staff feel that if student numbers are truthfully reported to have dropped to unviable levels due to a lack of demand, the subsidy to the school would be withdrawn and they would lose employment or face a transfer to another school.

There are other motivations for government-funded schools to over-report enrolments. Dhingra (op cit p 4) states that until 1985, "targets for elementary education were laid down in terms of additional enrolment. A system of annual target setting was devised ... whereby each state was given a precise target. The states in turn divided the figure among divisions, districts and blocks and the blocks among schools... the school head was given a target of enrolment that generally had no relationship to the size of his school or number of school-going children in the school catchment area, but represented a mark-up over his previous year's enrolment figure...". Referring to these 'enrolment drives', Dhingra (p 11) states "considering the manner of target fixation and information collection, it is not surprising that enrolment data should be over-reported. The system is judged on the basis of additional enrolments achieved, and consequently conspires together to show that given targets are met". As Dhingra says, indeed one can sympathise with the cynics who claim that the system was designed to collect information that shows only progress. These explanations are similar to those in Prasad (1987) for the state of Andhra Pradesh.

Thus, the evidence on large-scale over-reporting of enrolments in elementary education is compelling and it is consistent with the incentives for over-reporting that teachers and school authorities face. However, we have not come across any evidence that there is over-reporting of enrolments in secondary education. This is because secondary education in India is supply constrained: most secondary schools are genuinely over-crowded, primarily because of the inadequate number of GPA secondary schools and also because there are far fewer PUA educational institutions at the secondary level than at elementary, as we show in section V.

The purpose of discussing the extent of over-reporting of GPA elementary school enrolments was to show that in official statistics, the enrolment share of PUA schools appears smaller than it is partly because the statistics greatly exaggerate the enrolments

Table 3a: Percentage Share of PUA Elementary (Primary + Junior) School Enrolments in Total Elementary School Enrolments

	UP		India	
	Official Data (1986-87)	Survey Data (1994-95)	Official Data (1986-87)	Survey Data (1994-95)
Rural	8.5	27.2	2 0	9.8
Urban	37 1	80 7*	16 9	na

* This figure is based on a sample survey of urban Lucknow only and not on urban UP as a whole.
Source: Official figures for UP compiled from GOUP (1991), Table 137, p 780 and for India from NCERT (1992), Table 170, p 1086-1115 The survey figures for rural UP and rural India are based on NCAER survey data reported in Shariff (1996) The urban UP survey figure is based on the findings of a random sample survey of 1,000 households carried out by the author in Lucknow Urban Agglomeration in 1995 This data collection is described in Kingdon (1995)

Table 3b: Statewise Distribution of Students Aged 6-14 Years by Type of School, Rural Areas Only

States	Distribution Based on Official Data (NCERT)		Distribution Based on Household Survey Data (NCAER)	
	GPA Schools	PUA Schools	GPA Schools	PUA Schools
Haryana	99 8	0.2	87 1	12.9
Himachal Pradesh	99 5	0.5	95.2	4.8
Punjab	99 6	0.5	80.4	19.6
Uttar Pradesh	91.5	8 5	72.8	27.2
Bihar	99.0	0.1	91.3	8.7
Rajasthan	97.7	2 4	96.6	3 4
Madhya Pradesh	98 8	1 2	96.6	3.4
Orissa	98 6	1.4	95.9	4.1
West Bengal	100 0	0 0	99 0	1.0
Gujarat	99.9	0.1	98.0	2.0
Maharashtra	98 1	1.9	98.5	1 5
Andhra Pradesh	98 3	1.7	89.8	10.2
Karnataka	98.5	1.5	90.4	9.6
Kerala	98 8	1 2	88 0	12.0
Tamil Nadu	99.8	0.2	93.0	7.0
All-India	97.9	2.1	90.2	9.8

Source: Shariff (1996), Table 3, p 24.

of GPA schools However, as Tables 1 and 2 showed, despite this source of understatement of PUA schools and their enrolments, their role in elementary education is sizeable.

A Simple Simulation

We have argued so far that there are two main sources of error in the officially collected data on school enrolments: one due to the exclusion of non-recognised PUA schools and secondly because of the over-reporting of enrolments in government-funded schools, namely GPA schools. While there is no easy way of taking into account errors due to the exclusion of non-recognised schools, it is possible to estimate the true relative size of the GPA and PUA sectors by correcting for the inflation in GPA enrolments and this section attempts to do that. It shows that just correcting for the over-statement of GPA enrolments would push up the enrolment share of recognised PUA primary schools in urban UP from 40 per cent (in official statistics)[9] to 60 per cent, and in urban India, from 18 per cent to 27 per cent While these results are mere simulations, they are nevertheless suggestive.

The calculation is as follows: We know that departmental enrolment figures are 71 per cent higher than census figures. However, we also know that the discrepancy between census and departmental primary enrolment data is partly due to the 'grossness' of the departmental data, i e, due to including under- and over-aged children who are enrolled in primary classes (we call this the 'grossness' factor), and partly due to dishonest roll-inflation Unfortunately, we do not know the net enrolment ratios and so have no reliable guide on how much of the discrepancy is due to the grossness factor. However, we can take a liberal estimate of the grossness factor (say 20 per cent)[10] and a conservative estimate of the roll-inflation factor (71 per cent-20 per cent = 51 per cent).

The relative roles of government-funded and private schools can now be estimated as follows: In the absence of more disaggregated data, assume, rather crudely, that departmental primary enrolment data are inflated by the same percentage (51 per cent) in all states and regions (urban and rural). For a given area, take the departmental primary enrolment figure and deflate it by 51 per cent to obtain the true total enrolment, say x. True GPA enrolments can now be estimated by subtracting PUA enrolments from x (given the premise of the previous section that there is no roll-inflation in PUA schools).

Example. In 1986 in urban UP, there were 2,033,220 children enrolled in primary schools according to departmental data (calculated from table 2a). We deflate this figure by 51 per cent to get the actual total enrolment of 1,346,503. From this, subtract PUA primary schools, enrolments (811,903, see Table 2a). Thus, true GPA enrolment in primary schools in urban UP in 1986 is estimated to have been

1,346,503 − 811,903 = 534,600.

In other words, GPA primary enrolments constituted a mere 40 per cent of all primary enrolments in urban UP in 1986. The majority, namely 60 per cent, of the primary school-going children attended fee-paying private schools! Similar calculations for urban India would push up the enrolment share of PUA primary schools from 18 per cent in official statistics (based on Table 2a) to 27 per cent, once the exaggeration in GPA enrolments is taken into account. If it were possible to take into account the enrolments in non-recognised PUA schools, the enrolment share of PUA primary schools would show itself to be even higher.

Survey Data

One way of overcoming the problem of inaccurate official statistics (which are based on school-returns) is to look at the results of household survey data. This avoids the problem of under-enumeration of PUA schools and of their enrolments because such data does not distinguish between recognised and non-recognised PUA schools when asking households what type of school a child attends, and because households have no incentive to over-report the number of children enrolled in free, GPA schools. The only national survey data that reports on the type of school attended by children is a 1994 household survey carried out by the National Council of Applied Economic Research (NCAER).[11] The results of its findings are available for rural areas only but not yet for urban areas. However, a 1995 survey of 1000 households carried out by the author in the Lucknow urban agglomeration[12] gives an estimate of school-types attended by children for an urban area of Uttar Pradesh. These figures are presented in table 3a which also shows the latest available official data on UP and India. Table 3b gives the equivalent figures for rural areas of major Indian states.

Unsurprisingly, tables 3a and 3b show some remarkable discrepancies between official data and independent survey data. For example, in rural Haryana, official statistics showed that a mere 0.2 per cent of all elementary school children were studying in PUA schools while household response data shows 12.9 per cent of children attending PUA schools. In rural India as a whole, while official data showed only 2 per cent of elementary school-goers as attending PUA schools, household survey data show about

Table 4 PUA Recognised Schools as a Percentage of All Schools in Urban Areas, 1986

School Level	Uttar Pradesh		India	
	Number	Percentage	Number	Percentage
Primary schools	3171	34 4	8794	16 6
Junior schools	1750	51 9	6320	24 4
Secondary schools	119	5.4	3237	14 7

Notes PUA secondary schools affiliated to the ICSE and CBSE boards (which are all-India examination boards rather than state examination boards) appear not to be included in official statistics so that the figure of 119 is somewhat underestimated Unrecognised PUA schools, which exist only at primary and junior level are also not included in official statistics so that their numbers above are also underestimates

Source Computed from NCERT (1992), Table 53·400-411

Table 5 Percentage Share of Recognised PUA Schools and Their Enrolments by Area and Level, UP and India, 1986

School level	UP		India	
	PUA Schools as a Per Cent of All School	PUA Enrolments as a Per Cent of All Enrolments	PUA Schools as a Per Cent of All Schools	PUA Enrolments as a Per Cent of All Enrolments
Rural				
Primary	3	4	1	1
Junior	32	24	5	5
Secondary	8	3	8	4
Urban				
Primary	34	40	17	18
Junior	52	33	24	15
Secondary	5	6	15	9
Rural + Urban				
Primary	7	11	3	5
Junior	36	27	9	9
Secondary	7	5	10	6

Source Computed from Tables 53 and 170 of the Fifth All India Education Survey, NCERT (1992), and Table 137 of the *UP Report of Fifth All India Education Survey* [GOUP 1991].

10 per cent of children to be in PUA schools. In urban UP, the discrepancy is very large (Table 3a), the percentages varying between 37 per cent and 80 per cent. While some of these discrepancies are almost certainly due to the growth of PUA schools in the period between 1987 and 1995, a good part can probably be attributed to the under-enumeration of PUA schools, enrolments in official statistics due to (i) omitting the non-recognised schools and (ii) the inflation in GPA school enrolments.

Table 3a shows that PUA schools have a very substantial presence in school education (27 per cent enrolment share) in rural UP and that they teach 80 per cent of all children enrolled in elementary education in the urban part of Lucknow district! While the situation in Lucknow may not be representative of that elsewhere in urban UP (for example, Lucknow is likely to be a more prosperous district than many others in UP because it is the state capital), it is nevertheless highly suggestive. it is likely that fee-charging private schools teach the majority of the urban elementary-age population in UP

However, the case of UP cannot be generalised to India as a whole. Table 3b suggests considerable inter-state variation in the role of private schools. It shows that such schools have a much smaller proportionate role in India than in UP or in states like Punjab, Haryana, and Kerala. Even so, the share of PUA elementary schools at about 10 per cent in rural India is not insignificant, and may be quite high in urban India if the extent of discrepancy between official and survey figures is as large for urban areas as for rural areas.

In sum then, far from being infinitesimally or negligibly small as sometimes claimed, the share of the PUA sector in Indian education is substantial and has grown over time. Official estimates greatly understate the role of this sector by ignoring non-recognised PUA schools and by exaggerating the relative role of GPA schools.

Private Tuition Industry

Another area of private enterprise in education that is not captured in official statistics is the private tuition and coaching 'industry'. Expenditure on private coaching appears to be a substantial proportion of total household educational spending in India. For example, GOUP (1992:19) shows that in urban UP, on average, 23 per cent of household educational expenditure (all fees, books, uniform, private tuition/coach-ing and travel) of secondary and higher education students was on private tuition or coaching.

A good proportion of students appear to take private tuitions in urban areas. For example, in urban Lucknow in 1991, out of a sample of 928 students of class 8 in G, PA and PUA schools, 34 per cent reported taking private tuition [Kingdon 1994]. In a 1995 survey of 1000 households in urban Lucknow agglomeration, 39.3 per cent of all children enrolled in secondary schools took private home tuition (survey described in Kingdon 1995). Chadha and Singh (1988:3) report that in their sample of primary schools in New Delhi, 37 per cent of all G school students and 28 per cent of all PUA students took private tuition.

While the above survey-based evidence on the magnitude of private tuition-taking is suggestive, there are, as far as the author is aware, no hard figures on the size of the private tuition industry. The evidence for its spread is mainly incidental or anecdotal, coming from the preponderance of newspaper advertisements by private tutors and evening coaching colleges, and from interviews with parents.[13]

The rapid increase in the incidence of tuition-taking documented by so many in India [see for example National Commission on Teachers 1986:80; Muzammil 1992:5; and GOI 1985:30] shows that the well-off whose demand for fee-levying schooling in the mainstream education sector is frustrated, create their own surrogate or subsidiary private fee-paying education sector where they can dictate the quality of the service and which operates mainly in the evenings. The private tuition 'industry' in India has been the cause of concern because of its perceived detrimental effects on the main education system (National Commision on Teachers ibid, GOI ibid). Yet this subsidiary market in education as Muzammil (1992:5) calls it, is growing in response to private demand.

Causes

While we have discussed the size and impressive growth of the fee-charging private sector, little has been said about the causes of this growth. It is clear that government-funded elementary education is not supply-constrained; indeed most surveys suggest that such schools are under-utilised due to a lack of demand. Thus, lack of capacity in GPA schools is not a cause of the growth of PUA elementary schools. The two main other possible explanations of the growth of PUA schools are (a) the effect of rising incomes on the demand for private schooling, and (b) the effect of a breakdown in the functioning and quality of state-funded elementary schools. While appealing a priori, explanation (a) appears not supported by evidence in India: for example, Uttar Pradesh has one of the lowest per capita incomes among all states in India [Dreze and Sen 1995, Table A3] and yet the role of PUA schools is by far the greatest there among all states (see Table 3b above). While we do not dismiss the possibility that at least part of the private sector may be income-led, the final explanation, namely the poor functioning of state elementary schools, is probably more important explanation of the growth of PUA elementary schools.

That government-financed elementary schools in India are grotesquely under-resourced is well-documented by many analysts and researchers, and this contributes

Table 6: Recognised PUA Enrolments in Class 8 and 9 in Urban UP, 1978 and 1986

Year	Enrolled in Classes 6 to 8	Estimated to be Enrolled in Class 8	Enrolled in Classes 9 to 10	Estimated to be Enrolled in Class 9	Number in Class 9 as a Percentage of Number in Class 8
1978	109724	32425	13510	7344	22.6
1986	396178	132059	72899	36450	27.6

Notes. The figures for enrolment in class 8 and class 9 in 1978 are actuals but those for 1986 are estimates. Column 3 is estimated by dividing column 2 figures by 3 since there are three years in the junior cycle. Similarly, column 5 is estimated by dividing column 4 figures by 2 since there are two years in the lower secondary (high school) cycle.

Source: Columns 2 and 4 from GOUP (1991), Table 137 780 and GOUP (1982), Table 128 598.

Table 7: PUA Enrolments at Different Education Levels in Urban UP and India, 1986

Region	Cycle	Cycle Length (Years)	Total Enrolled in Cycle	Average Enrolment Per Year of Cycle	Enrolment as a Percentage of Primary Enrolment
Urban UP	Primary	5	811903	162381	100 0
	Junior	3	396178	132059	81.3
	Secondary	4	78971	19743	12.2
Urban India	Primary	5	3617791	723558	100.0
	Junior	3	1395610	465203	64.3
	Secondary	4	645442	161361	22.3

Source: Compiled from GOUP (1991,780) Table 137 and NCERT (1992 1086-1115) Table 170.

to their lack of effectiveness. Another major reason for the poor functioning of state-funded schools is their lack of accountability. Government-paid teachers (that is, teachers of G and PA schools) have little incentive to do their job seriously their appointment is permanent and their salaries are not related to work performance. As Dreze and Saran (1993) report from Palanpur in UP, the teacher of the village school rarely took the trouble of turning up at all and even when a teacher was present in school, little teaching actually took place Similar findings emerge from a number of field studies from different parts of India cited in Dreze and Sen (1995) and in the companion volume [Dreze and Sen, 1996, chapter by Dreze and Gazdar]. This virtual breakdown in primary education as documented by many analysts, is ample cause for parental inconfidence in the publicly-financed education system.

Several accounts indicate that the exodus from government-financed elementary schools to private fee-charging schools reflects this breakdown of the free system. A report by National Institute for Educational Planning and Administration (NIEPA) (1990:17-18) notes that existing free educational facilities are being under-utilised. The World Bank (1989:48) comments on the apparent lack of demand for state-funded basic education while enrolments in private schools rise. It notes that low utilisation of public educational facilities is partly a response to the perceived quality of services being offered. At the secondary level, the inadequacy of PUA options (due to tighter recognition rules and greater controls) means that inconfidence in G and PA secondary schools is gauged by the size and growth of the private tuition industry.

It appears that disenchanted parents abandon impoverished state-funded schools, bypassing the free public option for the costlier PUA schools and/or private tuition. While the GOI (1985:53) calls the parents who do so 'gullible',[14] the parents' behaviour appears to be a rational response to the failing public system of education.

V
Elementary and Secondary PUAs

The discussion so far has sought to show that fee charging private education is pervasive in UP and in urban India, and that its role has grown rapidly relative to the growth in free schools. In this section, we consider the relative roles of elementary and secondary PUA schools.

Both Tables 1 and 2 showed that in urban UP and to some extent in urban India, PUA schools have a smaller role in secondary education than in elementary. In other words, fee-charging schools have a prominent role in basic education and only a tiny role in secondary education. Fee-levying institutions are more scarce as one moves from elementary to secondary education.[15] Both Tables 2a and 2b showed that according to official figures, the fastest growth in PUA enrolments has occurred in primary schools, followed by junior schools, and that enrolments in PUA secondary schools have grown but little in urban UP and urban India. This is partly due to stricter government regulations and recognition rules at the secondary level, which constitute a barrier to the entry of private operators in the secondary school 'market'. It is also partly due to the state government policy to bring PUA junior and secondary (but not primary) schools into the aided list, that is, to turn PUA junior and secondary schools into PA schools, a phenomenon whose equity effects we discuss later in the paper.

Table 4 shows that while there are plenty of PUA elementary schools in urban UP, there is a severe relative shortage of PUA schools at the secondary level: whereas in 1986 in urban UP there were 1,750 PUA junior schools, there were only 119 PUA secondary schools. The same story emerges from Table 5 which shows that while it is not the case in rural India as a whole, it is true in UP (both rural and urban) and urban India that the percentage share of enrolments of PUA schools is much greater in elementary than in secondary education, with PUA enrolments' percentage share in primary education constituting from about double (in urban India) to about six times their share in secondary education in urban UP.

The effect of the abundance of PUA elementary and the relative scarcity of PUA secondary schools can be seen in Table 6. Out of an estimated 1,32,059 PUA students in class 8, only 36,450 or 27.6 per cent could find places in a PUA class 9 in 1986 in urban UP, and the situation has not improved much since 1978.

Finally, we can show the 'squeeze' that occurs in the availability of PUA schools at the secondary level by noting the percentage of PUA primary school pupils who are able to find admissions in PUA secondary schools. Table 7 shows that only 12.2 per cent of students who chose and paid for PUA schooling at the primary level were admitted into a PUA institution for their secondary schooling in urban UP, though the squeeze is less severe in urban India as a whole. There is adequate capacity in PUA secondary schools to accomodate only a fraction of the graduates of PUA elementary schools. If we consider that unrecognised PUA elementary schools' enrolments are not included while those of all PUA secondary schools are, the relative size of the PUA secondary sector *vis-a-vis* the PUA elementary sector is even smaller.

VI
Equity-effects of Schooling System

It is worth noting at the outset that since the PUA secondary school sector is much smaller than the PUA elementary sector, it is supply-constrained and rations its places by higher fees and entrance (ability) tests. It is therefore a high fee, elite sector with a much more privileged student-intake than the PUA elementary school sector.

The abundance of PUA elementary schools and the dearth of PUA secondary schools obliges many well-off students who are willing and able to pay – and who did pay for their schooling up to class 8 – to attend free G or PA secondary schools. Consequently, much of the scarce public educational resources in urban areas are spent on the many well-off students who have no choice but to partake of subsidies at post-elementary education levels. Thus, the mix of free GPA and fee-charging PUA schools across elementary and secondary levels is inequitable.

We stated earlier that apart from the stricter control and regulation of PUA secondary schools, one of the other main reasons for the relatively slow growth of PUA secondary schools was the government's policy to bring PUA junior and secondary schools into the aided list, that is, to make them grant-in-aid or PA schools[16]. The equity effects of this policy are unambiguously adverse. students who were able and willing to (and indeed did) pay for the full cost of their education in a PUA school suddenly become recipients of public subsidies when their school is made PA. No longer do they have to pay any fees, as the state now bears the total responsibility for salary payments, etc, in the school. In other words, meagre public educational resources are perversely allocated to the relatively well-off students.

Nor is this all. The formula for funding PA schools has adverse equity effects. Since PA schools – most of which are in the secondary school sector – get only their salary payments from the state government treasury and meagre imputed fee grants, they face an acute need for cash to cover at least the essential non-salary costs. As a result, most of them run unrecognised PUA primary sections to generate surpluses to cross-subsidise their government-funded, tuition-free, junior and secondary sections. Kingdon (1994, chapter 7) found that eight out of 10 PA junior and secondary schools in a school survey of Lucknow city ran such unrecognised PUA primary sections in 1991. The schools are typically run in two shifts, so that all students share the same facilities but mainly the fee-paying primary section pupils pay for these facilities. Upon reaching class 6, the primary section fee-paying pupils enter the fully subsidised PA junior section

where they pay no tuition fees. This implies that many students have to face a financial hurdle in order to access government educational subsidies: those who are financially able to pay for primary schooling are then able to enjoy publicly funded junior and secondary schooling. This is doubly inequitable because it targets the well-off for subsidy.

Due to the higher incidence of drop-outs among them, children of the poor are better represented in elementary education levels and relatively less well represented at the secondary and higher levels. It is regressive that fee-charging schools have a prominent role in elementary and a relatively much smaller role in post-elementary education. Equity considerations suggest that free, publicly funded education should take a much more substantial role in elementary education than is the case at present. In his book on educational finances in UP, Muzammil (1989:152) also thinks it "against the equity norms that there exist institutions at lower levels which are run privately... and in that case almost [the] total cost is paid by students, whereas invariably all institutions of higher learning are heavily subsidised by the state".

VII
Conclusions

This paper has presented evidence on an issue which is largely unexplored in India at present, namely the size, growth, and equity-effects of fee-charging schools in Indian education. It has also shown – from comparisons of enrolment rates from education-department data, census, and National Sample Survey data – that enrolments in government-funded elementary schools are greatly exaggerated in official statistics. The paper has discussed the motivations for such roll-inflation and examined the effect of this overstatement for the relative roles of free and fee-charging schools in published data. It has also considered the role of the unrecognised schools. Finally, it analysed the equity-effects of the mix of free and fee-charging schools at elementary and secondary levels. The main conclusions of the work follow.

The fact that unrecognised PUA schools are not required to be registered and cannot therefore be enumerated in official data has varied consequences. Firstly, the education departments do not know the real extent of fee-charging private involvement in elementary education, though anecdotal evidence and household surveys find it to be a large and growing sector. Secondly, coverage of education is understated if private unrecognised schools are ignored in official statistics. Finally, the published figures on the relative roles of free and fee-levying educational provision are skewed (magnified) in favour of G and PA schools. The role of the free school sector is exaggerated so that it appears that elementary education is largely state-supported, leading to a false sense of satisfaction with the status quo. While it may be expedient for the government to magnify its own role and underplay the role of fee-charging education, the contribution of PUA schools to the elementary education effort should not be ignored for important equity-related reasons.

The abundance of PUA elementary schools and the relative lack of PUA secondary schools in UP (rural and urban) and in urban India, is inequitable. It gives the well-off better chances of acquiring primary education and it obliges a number of students to carry a financial hurdle in order to access junior and secondary education subsidies. Moreover, government subsidies to a large proportion of secondary schools but only to a smaller proportion of elementary schools represents an inequitable expenditure of scarce educational resources since children of the poor are better represented in elementary than in secondary education.

If fee-charging education is really much more widespread than that indicated by official statistics and if PUA schools are plentiful in elementary but scarce in secondary education, as we have argued, then there are serious reasons to worry about the equity effects of the prevailing school education system. The sooner the public sector informs itself of the true extent of fee-levying elementary education in India and faces up to the embarrassment of such a realisation, the sooner can the task of taking equitable measures begin.

Notes

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1 Education was until 1976 a state subject and although since then it has been a joint state and centre subject, there are nevertheless regional diversities in the administrative structures of education that have evolved over the decades since independence and even before.

2 The heavy regulation of PA schools started with the passing of the Salary Distribution Act 1971 in UP and similar acts in other states, for example the Direct Payment Agreement 1972 in Kerala [Mathew 1990]. These acts greatly centralised many aspects wof the management of PA schools such as the fee these schools could charge, taking over the salary payment of staff and the recruitment of staff.

3 There is a degree of inter-state variation in the government regulation of PA schools. For example, in Tamil Nadu PA schools are less regulated than in many other states.

4 As from 1990, education up to the secondary level has been made tuition-free in UP and in many other states. Before then, G and PA schools could charge prescribed nominal fees but they had to deposit the meagre fee revenues into the state government treasury. PA schools then got 15 per cent of this fee revenue back for non-personnel costs. Since the abolition of fees, however, PA schools get back 15 per cent of imputed fee revenues but, as before, this is a tiny sum since fee levels were very low, typically a maximum of Rs 8 per month for boys in secondary classes and nil for girls up to secondary classes.

5 PUA schools become PA schools if they are brought under the government grant-in-aid scheme. While teachers of PUA schools almost always want their schools to gain PA status since this ensures permanency and minimum salaries, the managers of PUA schools usually resist government aid in UP because they lose management control and the opportunity to charge fees and make profits.

6 To be eligible for recognition in UP, a PUA school must be a registered society, have an owned rather than a rented building, employ only trained teachers, pay salaries to staff according to government prescribed norms, have classrooms of a specified minimum size and charge only government-set fee rates. It must also instruct in the official language of the state. A recent condition for recognition of a private school is that it must not be situated within 5 kilometers of a G school.

7 While it is in the teachers' interest to gain PA status for the school (since they would then be paid G school salary rates), it appears that this conflict of interest between teachers and managers is usually resolved to the management's advantage since the latter can usually veto an application for government grant-in-aid.

8 In any case, many parents in rural Uttar Pradesh have found a way out sending their children to such unrecognised PUA schools but also, at the same time, enrolling them in a government school simply in order to enable the child to obtain a valid TC (see Dreze and Gazdar 1996 who call this phenomenon 'implicit privatisation' of primary schooling in UP).

9 Derived from table 2a; also see Table 5.

10 A 20 per cent grossness factor can be justified on the following grounds: We stated earlier that in 1961 departmental elementary enrolment figures were 20 per cent higher than the 1961 census based enrolment figures (Heyneman 1980). If we make the liberal assumption that in 1961 there were no incentives for school authorities to over-report enrolments, then the whole of the 20 per cent discrepancy can be attributed to the grossness factor rather than the roll-inflation factor. We also make the reasonable assumption that, over the decades, the 20 per cent figure has remained stable, that is, the proportion of under- and over-aged children who are enrolled in elementary education has remained the same.

11 While the National Sample Survey 42nd Round (1986-87) on 'Participation in

Education' asks children the type of school they attended, its report in Sarvekshana (NSSO 1993) unfortunately does not present the overall proportion of children in government and private schools. The NCAER survey in rural areas sampled approximately 35,000 households in 16 states.

12 See Kingdon 1995 for description of the data collection

13 In my survey of 1000 households in urban Lucknow [described in Kingdon 1995], many parents of secondary school children reported that the children had to take out-of-school, privately paid tuition from their own regular school teachers because the teachers did very little teaching in the school itself but, instead, required their students to come to their homes in the evening for paid extra coaching. The teachers do this as a way of earning an income over and above their government-paid salaries. Parents feel obliged to send their children for such extra coaching because of the fear that, otherwise, the child might fall out of favour with the teacher who might then not award the child fair grades in the final practical examinations

14 GOI (1985:53) states that that "there is an increasing incidence of the establishment of the so called english medium schools which attract gullible parents, mainly because the municipal or government schools are so unattractive". While there may be some reason to doubt the english-medium credentials of a good number of private schools that claim to provide 'english-medium' education, it is not clear that the main parental motive for sending children to such schools rather than to government schools is their advertised medium of instruction.

15 It appears that fee-levying educational institutions are even more scarce at the higher education level than at secondary. Shatrugna (1988) reports that in 1988 there were only 161 fee-charging colleges, which represents a tiny proportion of all higher education institutions in India. Shatrugna gives no source for the figure he cites. The extensive media coverage of the issues surrounding the capitation fee colleges (following the Supreme Court case of Mohini Jain, see Sathe 1992) appears to give an exaggerated sense of the role of these colleges - for in no such coverage have we come across any hard figures on their numbers or growth. In any case, the Supreme Court's ruling fixing maximum fee levels that can be charged in such institutions is likely to have curbed their growth by discouraging new entrepreneurs from investing in such colleges.

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Beneficiaries of IPS Subsidy and Impact of Tariff Hike

Girish Sant
Shantanu Dixit

Electricity tariff for irrigation pumpsets (IPS) is one of the most controversial issues in the power sector reforms. It is believed that poor agriculturists need this subsidy and without the subsidy, the food prices will substantially increase. Analysed here is the distribution of IPS subsidy among IPS users in Maharashtra, the likely impacts of consumption-based tariff and tariff hike. The analysis shows that flat (Hp-based) tariff results in highly skewed subsidy distribution and is regressive in nature. Most farmers can pay tariff much higher than usually assumed to be possible.

THE Indian power sector is in grip of many crises, of which the capital crisis is the most talked about. The government has radically changed power policies in an attempt to solve capital crisis. But the survival of SEBs and the power sector in general is still linked to the policies regarding electricity use of agriculture pumpsets (irrigation pumpsets (IPS)).

The subsidised tariff for IPS is one of the most important cause for capital crisis. It is largely believed that: (i) the agriculturists, and especially the poorer section among the agriculturists cannot afford to pay electricity tariff as per the cost of electricity generation and supply; (ii) the cost of production of foodgrains will rise substantially if the electricity tariffs are raised; and (iii) metering agricultural consumption will be very expensive for the SEBs. Hence, electricity tariffs have been kept way below the cost price and the billing of most IPS has been linked to the pump Hp rather than the electricity use.

The power sector has estimated that in 1994-95, the IPS users in the country consumed 69,000 million kWh (mu), which was about 29 per cent of total electricity sales. The average tariff for IPS users was Rs 0.218/kWh. This tariff covered only 14 per cent of the average cost of generation and supply [Planning Commission 1995]. Thus, IPS users received a subsidy of over Rs 10,000 crore in 1995 alone. This subsidy was equivalent to the cost of a 2,500 MW power plant; which is nearly half of the required capacity addition in the country. The policies regarding the IPS also have serious implications for the groundwater situation and the rural economy. Despite such enormous importance, there has been little debate or analysis about the usefulness of this huge subsidy or who benefits from it.

Two different authorities have made opposite assessment of the impact of raising electricity tariff to the level of cost of production and supply. Here we examine these questions in the context of IPS in Maharashtra.

In the ongoing process of SEB restructuring, the consultants and the World Bank (WB) have suggested that SEBs should charge cost-based tariff to agriculture. In case of UP, the World Bank (WB) consultant has recommended a tariff of Rs 3.5/kWh (in 1995 prices) for the year 2000 [Hayes and Bartlett 1995]. Raising IPS tariff is considered politically difficult. The National Development Council (NDC) had decided that Rs 0.5/kWh should be recovered from IPS users. But only six states have implemented such tariffs [ADB 1995]. Despite the fact that the prevailing tariffs are extremely low, farmers are not willing to pay their electricity bills. The recovery of dues from agriculture sector is very poor. The accumulated arrears of IPS users to the Maharashtra SEB (MSEB), for example, are nearly two and a half times the amount billed in 1996 [MSEB 1996].

Estimating Impact of IPS Tariff Hike

The impact of tariff hike on different groups of farmers or crops is rarely analysed. Two studies analysing the impact of the tariff hike could be located. A study by the WB concluded that if the agricultural electricity tariffs are raised to the level of average cost of electricity, then it will lead to significant rise in the cost of the agricultural commodities and will have regressive impact on poor. On the contrary, the Council of Power Utilities (CPU, a consortium of public sector power utilities) has assessed the impact to be marginal if the tariff is raised to two-thirds of average cost of electricity.

The study by the CPU estimated the increase in foodgrain prices due to tariff hike. Based on the amount of IPS consumption claimed by the power sector, the CPU estimated the incremental income to the power sector if tariff is raised to two-thirds of the average cost of supply. It estimated this additional burden on the farm sector to be Rs 2,574 crore per year. It further claimed that if this burden is passed on to the marketable foodgrains (88 million ton in 1989-90), then the cost of foodgrains would increase by Rs 0.3 /kg. This increase would have been Rs 0.5 /kg in 1993-94. The resultant impact on the citizen is estimated at only Rs 7.5 per month per person (in 1993-94 prices), which is only a marginal one. A major lacuna in the study is that it attributes the increase in the cost only to the marketable foodgrains. In fact, a large share of irrigation water is used for non-food cash crops.

Another report by the WB, titled 'India – Long-Term Issues in the Power Sector – Technical Report', also estimated the effect of IPS tariff hike and a shift to the consumption-based tariff on the prices of different crops [World Bank 1991]. The study concluded that the prices of cereals and sugar will be most affected. It predicted a respective increase of 7.3 per cent and 3.9 per cent in prices, if tariff was increased to half the 'long-range marginal cost' (i e, Rs 0.88/kWh for Maharashtra in 1990). The average cost of generation and supply in Maharashtra was Rs 0.993 in 1990, only slightly higher than suggested tariff. The report also points out that, (i) rural poor spend over a quarter of household budget on cereals and such tariff increase would have regressive impact and (ii) IPS consumption would significantly decrease.

The conclusions of this study were contradictory to the logic that water intensive crops such as sugarcane rather than cereals will have larger impact. The WB analysis was based on the input-output tables of the Planning Commission. For calculating the impact of the increased tariff, the study used the coefficients from the input-output tables referring to the direct electricity use (as a percentage of value added). These coefficients in the input-output tables are in turn based on the data collected by the Central Statistical Organisation (CSO). About the method of arriving at these coefficients, the CSO says: "Information on electricity consumption (in agriculture) is not explicitly available from CSS. Data on electricity utilised for agricultural purpose is obtained *from CEA* and is distributed to various crops *in proportion to* cropwise area irrigated by tube wells and pumpsets" [CSO 1990] (emphasis added).

It implies that CSO too neglects the effect of different water requirement for various crops. Sugarcane, for example, requires nine times as much water (and hence electricity) as jowar. Hence, use of these coefficients would give erroneous results. There are a

few additional factors which have a large influence on the cropwise electricity consumption, but their impact is difficult to account for These factors are also neglected by CSO. One such factor is the typical crops grown on different IPS configurations. For example, sugarcane is largely grown on lift irrigation schemes (LIS) in Maharashtra. LIS have large delivery heads and long pipe lengths, whereas cereals are mostly grown on well irrigation, which have limited delivery heads and small pipe lengths. Our analysis shows that, one ha of cane grown on a typical large LIS would require about 18 times more electricity than rabi jowar grown on well irrigation. Therefore, distributing electricity consumption uniformly over the area irrigated is highly erroneous and would project substantially higher electricity consumption for cereals than the actual consumption.

Due to use of CSO coefficients, the WB study neglects such issues. Its results are therefore questionable. Contrary to the conclusions of the WB study, our analysis, as described later, shows that farmers growing rabi jowar on well irrigation already pay 40 to 60 per cent of the average cost of supply. Whereas, the LIS consumers (mainly growing cash crops such as sugarcane) pay less than 6 per cent of the average cost. Hence, the effect of consumption-based tariff will be far more on farmers growing water intensive crops than that on other IPS consumers.

Apart from these issues, both studies had one major flaw. These studies analysed the impact of the IPS tariff hike on the cost of production of agricultural produce by averaging out the increased burden on all agricultural production. The production from IPS irrigated area was not distinguished from the production from other irrigated or unirrigated areas. The crops grown on IPS form only a part of the total production. Hence, the direct impact on the IPS users will be substantially higher than the impact estimated by these studies. And the behaviour of IPS users cannot be predicted by looking at the increase in average costs. We need to estimate the direct impact on IPS users

For the above task, first it is essential to get a clear picture of the existing electricity consumption patterns and the distribution of subsidy among different IPS users and crops. Only then can we comment on the likely impact of tariff increase on IPS users and consequently on crop prices. With a case study of Maharashtra state, we examine the following issues:

Present subsidy distribution and effective tariff paid – distribution of subsidy among different IPS users, and effective tariff (Rs/kWh) paid by different IPS users;

Impact of tariff increase on IPS users – present electricity bills as a share of gross value of produce, and expected electricity bills with introduction of metered tariffs;[1]

Possible reduction of impact by improving the end use efficiency.

Deficiencies in IPS Data

Though an inquiry into the IPS tariff and inbuilt subsidy is of considerable importance, there are serious data gaps, which make any work on this issue extremely difficult. For example, even the Hp-wise number of IPS was not readily available with MSEB. The state government departments do not have data on (i) area irrigated by IPS, (ii) cropping pattern on wells or IPS irrigated area, (iii) distribution of IPS based on the sources of water, etc. Similarly, the directorate of sugar or the irrigation department is not aware of the amount of sugarcane grown on canal water as against that grown on groundwater or surface water lifts (LIS). Our analysis, based on MSEB's IPS number and the data from the department of agriculture about area irrigated and number of IPS on wells showed a large discrepancy in the total net area irrigated in the state [Sant and Dixit 1996]. Hence, any inquiry in this regard has to be based either on extensive survey or on typical case studies. Present study is based on typical combinations of pump Hp, area irrigated, cropping pattern, etc.

To understand the likely impact of tariff increase and distribution of IPS subsidy on different groups of farmers, classification of farmers is crucial. It is customary to classify farmers on the basis of (i) crops grown, (ii) size of landholding, (iii) income and other economic aspects. On one hand, such classification was found to be impossible for IPS users due to the lack of data; on the other, a farmer's electricity consumption as well as his choice of crop (hence his income) are closely linked to the availability of water and in turn to the source of water. Therefore, primary classification followed here is on the basis of the source of water (well vs lifts from surface water sources). The applicable tariff (metered vs flat tariff) and the size of pump (in the case of lift irrigation schemes) are also used for classification.

In 1994, Maharashtra state had 18 lakh IPS against 95 lakh agricultural landholdings. IPS owning farmers consumed 8,923 mu, which approximately equals one quarter of the total electricity sales in the state. The average realisation from the IPS users was only Rs 0.23/kWh, which covered less than 17 per cent of the average cost of electricity. As a result, the IPS users received a subsidy of over Rs 1,150 crore in 1994 alone. As per the statement of the deputy chief minister, government of Maharashtra, this subsidy has increased to Rs 2,000 crore in 1996 [Sakal 1996]. IPS users in Maharashtra had an option between (i) metered and (ii) flat tariff. The metered tariff was Rs 0.5/kWh with a constraint of a minimum charge of Rs 90/Hp/year. This minimum charge was equivalent to the consumption in 240 hours of pump usage.[2] The other option of flat tariff was Rs 300/Hp/year.[3] For a pump operation of more than 800 hours a year, the flat tariff was more economical than the metered tariff.

In 1994, about a quarter of IPS users had opted for the metered tariff linked to the consumption and the rest, 75 per cent, users paid Hp-based tariff. The consumption of

Table 1: Consumption and Tariff Paid by Different Groups of IPS Users (1993-94)

	Metered IPS	Unmetered IPS		Total
		Large (LIS)	Small IPS	
No of Beneficiaries ('000)	428	192*	1,324	1,944
Connected load (MW)	1,399	341	4,567	6,307
Electricity consumption (MU)	211	1,530	7,182	8,923
Applicable Tariff (Cr Rs)	19	14	184	217
Subsidy (Cr Rs)	14	226	936	1,176
Share of IPS subsidy (per cent)	1	19	80	100
Subsidy (Rs/Beneficiary)	331	11,777	7,049	Avg 6,049
Percentage of landholdings	4.5	2.0	14.0	20.5

Notes: Average cost of generation and supply for MSEB (1993-94) was Rs 1 56/kWh. The minimum tariff for metered and unmetered IPS was Rs 134 and Rs 402 per kW per year respectively.
* The number indicated the beneficiaries of 3,200 large LIS connections.

Table 2: Effective Tariff Paid by Unmetered IPS on Wells

Crops	Estimated Consumption kWh/Yr	Pump Hp	MSEB Bill* (Rs/yr)	Effective Tariff Rs/kWh
1 Sugarcane	7,855	5	1,500	0.19
2 Wheat, summer groundnut	3,927	5	1,500	0.38
		3	900	0.23
3 Wheat	1,309	3	900	0.69
4 Jowar	873	3	900	1.03

Notes: Assumptions: Area irrigated per IPS = 2 Ha/IPS; Static head = 10 meters, overall pumpset efficiency = 20 per cent and water losses = 5 per cent.
* The MSEB bill calculated for a tariff of Rs 300/Hp/Yr. The effective tariff is arrived at by dividing the electricity bill by the electricity consumption.

these 75 per cent IPS users is not metered and is estimated by MSEB. The method of estimation is not transparent. And doubts have been expressed about the real level of consumption. [Roy 1996; Reddy et al 1991]. The consumption of metered IPS was only 211 MU, i e, 2.4 per cent of the total IPS consumption. The connected load of these users was about 1,400 MW. Based on the consumption and the connected load, their consumption per Hp works out to be only 113 kWh/Hp/yr. At this level of consumption, they would be charged the minimum tariff of Rs 100/Hp/yr.[4] Therefore, these users effectively paid a tariff of Rs 0.88/kWh. The average cost of generation and distribution for MSEB was Rs 1.56/kWh. Hence, these users received a subsidy of Rs 0.67 /kWh. For all metered consumers this subsidy works out to be Rs 14 crore of the total IPS subsidy of over Rs 1,150 crore.[5] Implying that, the 75 per cent of the IPS users received over 98 per cent of the IPS subsidy.

The conclusions possible from these data are : (i) about four-fifths of the farmers do not have pumps and do not benefit from the IPS subsidy, (ii) even among the beneficiaries one quarter of beneficiaries get negligible subsidy. The limitation of this analysis arises from the fact that, the group of farmers that we can isolate as the largest beneficiary is quite large, over 13.5 lakh; and the cropwise analysis of subsidy distribution is not possible. The following sections try to focus the conclusions with the use of additional information. This includes, information about (i) large IPS connection of the co-operative lift irrigation societies (LIS), (ii) typical pumpset efficiencies and possible energy savings, (iii) the recommended crop water use, crop yields on irrigated area, and the crop prices.

Among the IPS consumers paying the Hp-based tariff, it is possible to distinguish the large LIS users from other users which are usually small consumers. About 3,200 co-operative lift irrigation societies (LIS) are in operation in the state. These LIS irrigated 2.4 lakh ha using the surface water sources [Sant and Dixit 1996:25]. The connected load of these users has been estimated at 341 MW, and the actual beneficiaries at 1.91 lakh farmers.[6] The LIS are designed for 3,000 hours of operation per year, but they operate for much longer periods, generally between 4,000 to 5,000 hours a year. Assuming an average operation for 4,500 hours per year and total connected load of 341 MW in 1993-94, these large LIS would have consumed 1,530 mu. As most LIS pay flat rate tariff, these LIS would be expected to pay Rs 14 crore (@ Rs 300/Hp/yr).

As per MSEB data, the unmetered IPS consumed 8,712 mu and had a connected load of 4,908 MW. Considering the MSEB claim to be correct, remaining 13.2 lakh small unmetered IPS consumed the balance 7,182 mu. These small unmetered IPS would account for a connected load of 4,567 MW and hence were supposed to pay tariff of Rs 184 crore.

The consumption and the connected load of unmetered consumers has been estimated above. The consumption and the applicable tariff for the metered IPS is calculated in the previous section. Based on this analysis, Table 1 shows the number of beneficiaries, electricity use, and the subsidy availed for these three categories of IPS users. The subsidy is calculated by subtracting the applicable tariff from the cost of electricity consumed (based on the average cost of supply for MSEB).[7]

The accompanying figure plots the number of beneficiaries as a percentage of the agricultural landholdings in the state (on X-axis) against the subsidy received per beneficiary per year (on Y-axis). The reliability of power sector data regarding the IPS number as well as consumption is under doubt. The IPS consumption may be actually lower or the IPS in operation may be fewer than the MSEB claims. In either case the above conclusions regarding iniquitous subsidy distribution remain valid. If the IPS consumption is lower than claimed, then the estimated consumption of the 'small unmetered IPS' (third category) would be accordingly lower. This would imply more skewed subsidy distribution than shown here. The LIS co-operatives in Maharashtra have been promoted by the sugar factories for increasing cane production in their area (NABARD 1991). Generally one-third to one half of the area irrigated by large LIS is under cane. For the three sample LIS analysed; the average cropping pattern was 47 per cent sugarcane, 24 per cent summer groundnut, 32 per cent rabi wheat and about 20 per cent rabi jowar (among major non-kharif crops with area as percentage of net irrigated area). Assuming that the recommended water use was adhered to, 75 per cent of the water output of LIS was used for sugar cane. Extrapolating this to all the LIS co-operatives, 1.13 lakh ha of cane grown by LIS co-operatives received a subsidy of Rs 170 crore (Rs 15,044/ha of cane). On the other hand, metered IPS users have very small pump usage, which is expected to be used for irrigating single non-water intensive rabi crops (mainly cereals). These users received a much smaller share of the subsidy. This shows the regressive nature of IPS tariff in Maharashtra, in which the cereal growers benefit the least, while the cash crop cultivators benefit the most.

This section estimates the effective per unit tariff (Rs/kWh) paid by different types of IPS consumers. As mentioned earlier, the effective tariff for metered IPS works out at Rs 0.88/kWh. Among the unmetered IPS, differentiation is done between the LIS users and the IPS on wells. In the case of Hp-based billing, the effective (per unit) tariff depends on the hours of pump usage. Higher the pump usage, lower is the effective tariff.

The LIS are usually promoted for sugarcane, and have large static heads as well as long pipes. Hence, the hours of usage

TABLE 3: PRESENT ELECTRICITY BILL AS PERCENTAGE OF GROSS VALUE OF PRODUCE FOR MAJOR CROPS

Category of User	GVP (Rs/Ha)	Pump Hp Per Ha (Hp/Ha)	Electricity Bill (Rs/Ha)	Electricity Bill (Per Cent GVP)	Electricity Use (kWh/Ha/yr)
Large LIS	41,782	about 1 8	540	1.3	6,075
IPS on Well (Crop Hp)					
Sugarcane, 5	66,400	2 5	750	1.1	3,740
Wheat, summer groundnut, 5	31,468	2 5	750	2.4	1,964
Wheat, summer groundnut, 3	-do-	1.5	450	1.4	-do-
Rabi wheat, 3	10,738	1.5	450	4.2*	654
Rabi Jowar, 3	8,673	1.5	450	5.2*	436

Note: * Calculated for flat tariff. If these consumers opt for metered tariff the corresponding values would be 3.0 per cent and 2 5 per cent for wheat and jowar respectively.

TABLE 4: IMPACT OF CONSUMPTION BASED TARIFF ON FARMERS
(Values as Per Cent of Gross Value of Produce)

Category of User	Re 0.50/kWh (NDC) New Bill	Re 0.50/kWh (NDC) Increased Burden	Rs 1.73/kWh (Avg Cost) New Bill	Rs 1.73/kWh (Avg Cost) Increased Burden
Large LIS (per cent)	7.3	6.0	25.2	23.9
IPS on Well (Crop Hp) sugarcane 5	2.8	1.7	9.7	8.6
Wheat, summer groundnut, 5	3.1	0.7	10.8	8.4
Wheat, summer groundnut, 3	-do-	1.7	-do-	9.4
Rabi Wheat, 3	3.0	–0 8 (0)	10.5	6.3 (7.5)
Rabi Jawar, 3	2.5	–2.7 (0)	8.7	3.5 (6.2)

Notes: The values in parenthesis indicate the impact on the respective category of farmers in case they are already paying metered tariff. The negative values imply reduced electricity bills; Assumed area irrigated, efficiency and other details as per Table 3. The highest and least values have been highlighted.

CALL FOR PAPERS

FRACTURED SOCIETIES, FRACTURED HISTORIES

A SUBALTERN STUDIES CONFERENCE

The broadening of democratic politics in India has been accompanied by the development of new concerns and assertions on behalf of hitherto subsumed and marginalised groups. These demands have made particularistic claims of a new kind which appear difficult to accommodate with existing institutional structures and ideas about the uniformity and unity of Indian state and society. Contentions of this new kind have often given rise to divergent ways of thought and of writing the histories of subaltern groups and their relationship with dominant classes.

The Sixth Subaltern Studies Conference, to be held at the Giri Institute of Development Studies, Lucknow in **January 1998,** will be concerned with these issues. The first part will be devoted to an examination of Hindu-Muslim difference and the idea of citizenship; the second part will debate the question of caste and national identity. Part of our concern here is to examine the gendered character of community and caste discourses in order to understand changing character of rights of sexes. Papers may address the themes of the conference in historical, theoretical and contemporary modes and may relate to the national, the regional or the local.

Papers written in both English and Hindi are welcome. The last date for submission of abstracts is **15 March 1997**. These may be sent to either Hiranmay Dhar, Giri Institute of Development Studies, Sector O, Aliganj Housing Scheme, Lucknow 226 024 or Partha Chatterjee, Centre for Studies in Social Sciences, 10 Lake Terrace, Calcutta - 700 029.

are high. The large co-operative LIS operating for 4,500 hours a year, consume 3,357 kWh/Hp/yr, hence effectively pay only Rs 0.09 /kWh. The small (individual or group) LIS operate for lesser period. Considering an operating period between 1,500 to 3,000 hours a year, their effective tariff works out at Rs 0.26 to 0.13 per kWh.

The hours of operation of IPS on wells widely vary with the crop, the irrigated area, and the pump Hp. The usage of unmetered IPS on wells is estimated for different crops, based on the recommended water application. The pump usage is calculated for pumping water quantity equal to the recommended water use (shown in the Annexure), for the typical values of pumpset efficiency, water delivery head, and pump Hp.

Most wells have a 3 Hp or a 5 Hp pump. A total head of 10 meters and pump efficiency of 20 per cent has been considered for all IPS on wells. The calculation assumes two hector irrigation per well. Most irrigated crops are taken in combinations and in rotation. To simplify the analysis, only four major crops with the highest irrigated area in the state have been considered. These crops include sugarcane, summer groundnut, rabi wheat and rabi jowar. The average area irrigated per well in the state is about 1.25 ha [GoM 1995]. Hence, the calculation overestimates the pump usage hence underestimates the effective tariff. But the calculation neglects possible over-watering of some crops like sugarcane. In case of over-irrigation, the pump usage would be more and effective tariff paid would be lower than what is estimated here.

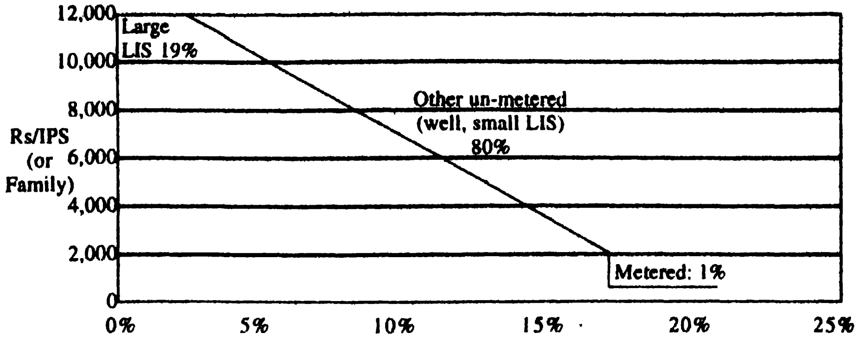
Table 2 shows the estimated electricity consumption, the electricity bill, and the effective tariff (in Rs/kWh) paid for irrigating different crops.

Farmers growing only rabi crops on well (usually jowar or wheat) under the flat tariff, and the quarter of users covered under metered tariff pay the maximum tariff, which is well over Rs 0.5/kWh. Wherever a well has abundant water, the farmer opts for more profitable crops, such as, sugarcane or summer groundnut. These farmers pay much less tariff. And the LIS users, usually growing water intensive crops pay even less, i e, half to one-tenth of that paid by well irrigating farmers.

Impact of Tariff Hike on IPS Users

As seen above, the present tariff favours farmers having access to abundant water. Consumption-based tariff is absolutely essential in order to make it more equitable as well as to create an incentive for efficient electricity use. Based on the above analysis of effective tariff paid, it can be concluded that LIS users will be the most affected if consumption-based tariff is applied. It is also essential to evaluate whether farmers can afford to pay consumption-based tariff and whether any subsidy is essential. Hence, the present electricity bill as a share of gross value of produce has been analysed first; followed by analysis of the likely increase in electricity bills due to the tariff hike.

Figure: Distribution of IPS Subsidy within Farmers



Note: About 79 per cent farmers do not benefit from IPS subsidy. About 4.5 per cent farmers paying metered tariff, receive negligible (1 per cent). On the other hand, subsidy per beneficiary for large LIS is more than what would be needed to support a person for a full year on minimum wages. The third group, comprising the rest of unmetered consumers, received a subsidy of Rs 7,050 per IPS per year

Typical electricity bills and typical 'gross value of produce' has been worked out in this section. Four major crops and two typical situations (the LIS and IPS on wells) have been considered for analysis. For IPS on wells, various combinations of pump Hp and crops have been considered. A typical cropping pattern on LIS has been assumed as mentioned earlier. Under the flat rate tariff, the electricity bill is directly proportional to the pump Hp irrespective of the pump usage. For estimating pump usage, the norm of pump Hp per ha irrigation found in case of 11 LIS has been assumed to be representative for LIS users. For IPS on wells, pump Hp per ha has been worked out for different combinations. The tariff of Rs 300/Hp/yr has been considered to be applicable. The gross value of produce per ha is calculated using the irrigated yields and the wholesale prices in the state (refer Annexure for data used).

For convenience of further calculation, the electricity consumption per ha of irrigation is also estimated. For IPS on wells, the electricity consumption as calculated in Table 2 has been used. For large LIS, electricity use has been calculated on the basis of assumed pump operation for 4,500 hours a year and pumping power of 1.8 Hp/ha irrigation.[8] The gross value of produce (GVP), the pump Hp and consumption per ha is shown in Table 3. The electricity bill in Rs/ha/yr and as a percentage of the gross value of produce per ha is also shown in the table.

The cropping pattern and irrigated area per Hp for small LIS is not clearly known and hence, has been omitted from this analysis. But the IPS on wells and the large LIS are extreme cases and the small LIS is expected to fall in between. The above calculation shows that, the present electricity bills are not too large. And there is no reason to pardon defaulting farmers. With flat tariff, the large LIS users and the cane producers pay the least, even as a percentage of value of their produce. And the less water and energy intensive users such as the jowar and rabi wheat growers pay the most. Since, the LIS users mostly grow water intensive cash crops, the present tariff benefits the cash crop growers, while being relatively harsh on foodgrain growers.

The impact on IPS users is analysis for two tariff levels; Rs 0.5/kWh (as recommended by NDC), and Rs 1.73/kWh (MSEB's average cost of generation and distribution in 1994-95). The likely electricity bills have been calculated using the estimate of electricity consumption per ha, as described earlier. For both tariff levels, the estimated electricity bill and the increase in burden, as a percentage of gross value of produce (GVP) has been shown in Table 4.

As seen in Table 4, for a tariff of Rs 0.5/kWh, farmers growing only rabi crops on wells will actually reduce their bills (if they have not opted for metered tariff already). A quarter of the IPS users that have already opted for metered tariff will see no change in their bills. Only farmers growing sugarcane on wells and LIS consumers will have to pay more. The increase in electricity bill will be only 1.7 per cent and 6 per cent of value of their produce respectively. This is definitely not an unbearable impact. This is the likely impact on the IPS users. The impact on average crop prices cannot be easily estimated. It is expected to be substantially less, as IPS irrigated crops form only a part of the total crop produce.

Some time ago, following NDC recommendation, a few SEBs attempted a move towards increasing the IPS tariff. A strong resistance from farmers for metered tariff of Rs 0.5/kWh, was reported. From

above table it can be seen that such a move would actually benefit or at least not harm the majority of farmers in the state. Only the LIS and cane growers would have to pay a little more. Paying Rs 0.5/kWh or even somewhat higher tariff should not be a problem for any category of farmers in normal situation. Actually, metered tariff would help in reducing the inequity in subsidy distribution. And opposition to metered tariff needs to be seen as an opposition to a move towards equitable distribution of subsidy.

At a tariff of Rs 1.73 (average cost of supply), the users with IPS on wells will need to pay 9 to 11 per cent of the GVP for electricity use. The large LIS will need to pay nearly a quarter of the GVP. Hence, it will be difficult for large LIS to pay cost-based tariff. This is especially true since these users also have to repay the bank loans. In other words the large LIS are unviable with cost-based tariff. But there are options to move closer to the cost-based tariff even for the LIS users. One such option is to give LIS users capital subsidy for improving pump and water distribution efficiencies, and help them improve their yields; while correspondingly increase the tariff. These investments in efficiency improvement by the SEB are sure to be highly cost effective. Additionally, LIS users can be charged a tariff increasing (in real terms) with the years of operation. The LIS users can afford to pay such increasing tariff because as time passes, their loan repayment decreases in real terms.

The miserable efficiency of the IPS and the economically attractive possibilities of increasing this efficiency is well known. In many field studies and pilot projects, economically attractive saving of around 40 to 50 per cent has been repeatedly demonstrated [Patel and Pandey 1993; NABARD 1984, Rajshekar, Mandi et al 1994]. Efficiency of the small and medium sized IPS is bad, because of improper choice of pump, piping and accessories, bad quality of pump and bad maintenance. In case of large pumps of LIS also, there exists scope for improvement, albeit smaller. For one LIS evaluated for efficiency improvement a saving of 12 per cent was found to be feasible by pump efficiency improvement. The water distribution losses in these LIS can also be minimised, usually by 10 per cent or so.

If we arbitrarily consider that electricity bill should be below 7 per cent of gross value of produce for all IPS users; then with efficiency improvement, users with IPS on well can easily pay the cost price of electricity. The large LIS users can pay over Rs 0.6/kWh. This assumes an average energy saving of 40 per cent in case of IPS on wells and 22 per cent in case of LIS.

But charging consumption-based higher tariff will not be sufficient to bring about the efficiency improvement. For example, farmers using diesel pumps do pay equivalent to as much as Rs 3/kWh, but their efficiency is far below achievable or technically desired level (TERI 1994). The reasons for this are multifold and are not discussed here. The SEBs or the government will need to take substantial initiative to bring about the improvements. Even private capital and initiative can be utilised while minimising SEB's involvement. If the SEBs and the state governments are serious and ready to take innovative approach, the financial burden of the IPS sales can be substantially reduced, while distributing the subsidy more equitably.

In 1993-94 MSEB claimed the IPS consumption to be 8,922 million kWh and the average recovery to be only Rs 0.23/kWh [Planning Commission 1995]. If NDC recommended tariff (Rs 0.5/kWh) had been introduced, MSEB's income would have increased by Rs 240 crore. The energy intensive IPS consumers have a clear incentive to oppose metered tariff. But many IPS users would actually benefit from metering . Most of such users are simply not aware of the option of metered tariff or the likely benefits. Hence, opposition from most IPS users for metered tariff can be easily overcome. The objections by LIS users needs to be overruled for the reasons already mentioned.

But the SEBs are as reluctant to meter IPS consumption as much as the IPS consumers. The SEBs are said to be afraid that (i) the cost of metering/meter reading would be high and (ii) meters are unreliable and may not work properly. The argument of metering cost is evaluated first. In Maharashtra, the one time cost of installing meters on 14 lakh unmetered IPS will be about Rs 100 crore.[9] The cost of meter reading is much smaller. Considering a cost of Rs 25 per reading and two meter readings per year; meter reading cost for all IPS will be only Rs 9 crore per year. Hence, the cost of metering is a baseless argument considering the expected increase in revenue of Rs 240 crore.

Second argument relates to the quality of the meters. The meter quality needs to be improved in any case and cannot be an argument against use of meters. But fortunately, for IPS users we have a simpler option. Once, a pump is installed, its power consumption is nearly fixed, which can be measured at the time of installation. The complicated energy meter can then be replaced by a simple timer which will monitor the hours of pump operation. Simple multiplication of pump power consumption (the measured power consumption or to begin with the pump name plate rating) with the hours of use will give the electricity consumption. Such electronic timers are simple, reliable and cheap. This method can improve the reliability and reduce the cost of installing new meters.

Such electronic timers can also include electronic circuits for (i) low voltage protection of motors, (ii) remote cut off for big IPS users and (iii) a current sensor to prevent use of higher sized pump than the declared size.[10] The feature of motor protection will be a major incentive for farmers to install these meters. The remote shut-off will offer SEBs a tool to manage peak loads. The 3,200 large LIS in Maharashtra have a connected load of about 350 MW. These users can be cut off during emergency, to offer substantial relief to the grid without causing inconvenience to the domestic and other rural consumers. Economics of such remote cut off is highly favourable to addition of new capacity or transmission lines.

But most SEBs have another strong reason for their reluctance. This reason is never stated. The SEBs know that IPS consumption is lower than what they claim. It has been alleged by researchers as well as ex-officials in power sector, that SEBs dump T and D losses in IPS consumption, to show low T and D losses [Roy 1995]. Metering all IPS will expose high T and D losses, which are a sum of technical losses and commercial losses, such as theft. But for proper running of power utilities, this is all the more reason for metering all IPS.

Even if we ignore the benefits of more equitable subsidy distribution, reduction in water and electricity wastage, increased revenue to SEBs, etc, IPS metering is essential to monitor and ensure efficient running of SEBs. And it would be worth spending a few crores for that purpose alone.

Though the present study is based on sample cases, the qualitative conclusions are expected to be valid for Maharashtra. The conclusions may not be valid for other states. But considering that irrigated yields in Maharashtra are among the lowest in the country, the impact of IPS tariff hike will be more pronounced in Maharashtra. The major conclusions of the study are:

- The IPS tariff (which was in effect till June 1996) is not a large burden on any farmer in normal conditions and the defaulting farmers need not be protected. At the same time, a large number of farmers in drought prone area are not aware of option of metered tariff and end up paying high tariff, at times more than Rs 1.0/kWh.
- The flat tariff results in a highly iniquitous distribution of IPS subsidy. The relatively better off farmers, having access to abundant water and growing water intensive crops capture most of the subsidy. These users pay much less tariff (in Rs/kWh) and also pay much less in terms of share of their produce value, as compared to other IPS users. A shift to consumption-based tariff is essential to remedy the situation.
- The metered tariff of Rs 0.5/kWh would

not have large impact on any IPS users. And can be applied immediately. A somewhat higher tariff can also be considered.

- If the full cost of generation and distribution is planned to be recovered from users, then most farmers with IPS on wells can manage to pay the same with some difficulty. For them the increased burden will be 4 to 9 per cent of the value of produce. But for LIS users the added burden will be about 24 per cent of the value of produce. Which may not be affordable. And if such tariff is enforced, the LIS would be in serious trouble. However, with increased efficiency, a gradual tariff rise linked to years of operation is feasible.
- The impact of consumption-based tariff will be mostly seen on cane and other water intensive crops with very small impact on cereals and other food crops.
- Efficiency improvement of IPS can substantially improve farmers paying capacity (in terms of Rs/kWh). Most farmers can pay the cost-based tariff without major change in their costs. If SEBs take proper initiative, efficiency improvement can be achieved through private sector investment while benefiting the SEBs.
- Metering of IPS is not just feasible, but is also highly desirable for social equity, reduction of water and electricity wastage and more importantly for monitoring and improving the efficiency of SEBs.

ANNEXURE

The major irrigated crops in the state are sugarcane, rabi jawar, rabi wheat, and summer groundnut [GoM 1995]. These crops are also important from IPS power consumption point of view. The recommended water application, and the typical yield on irrigated fields in the state are given in table below. Table also shows gross value of produce per ha for the said yield.

RECOMMENDED WATER APPLICATION, AVERAGE YIELDS AND GROSS VALUE FOR MAJOR CROPS

Crops	Recommended Water Application (Ha-cm)	Yield (Kg/Ha)	Gross Value of Produce (Rs/Ha)
Sugarcane	274	83,000	66,400
Summer groundnut	91	1,382	20,730
Rabi wheat	46	1,820	10,738
Rabi Jawar	30	1,446	8,673

Notes 1 Irrigation water needs at field head, in lift irrigation schemes as quoted in Rath and Mitra 1989: 21.
2 Yields of crop cutting experiments as per 'Performance Budget Irrigation Department' [GoI 1994].
3 Gross value of produce based on 1995 wholesale prices in Maharashtra [GoI 1995].

Notes

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1 Shift to consumption-based tariffs has been assumed due to its multiple benefits.
2 Rs 90/Hp/yr = 241 Hr/yr x 0 746 kWh/Hp x Rs 0 5/kWh
3 Since July 1, 1996, MSEB has revised IPS tariff for Hp-based billing As per the new tariff, high tension users (large pumps, mostly large LIS) pay Rs 600/Hp/yr The marginal farmers can avail of the concessional tariff of Rs 500 Hp/yr. The metered tariff was not changed
4 For metered users with connected load more than 10 Hp the minimum tariff was Rs 120/Hp/yr, while, for smaller pumps it was Rs 90/Hp/yr Hence, an average of Rs 100/Hp/yr is considered for analysis
5 This analysis ignores the shortfall in recovery from IPS users. The shortfall was significant averaging over 30 per cent of billed amount for last few years The analysis also assumes that MSEB's claim about the electricity use by IPS consumers is correct
6 The connected load of the large LIS is not documented by MSEB or any other government agency This has been estimated based on their irrigated area and the norm of 'kW/ha' which was derived from the data of 11 large LIS cases The design irrigation area (irrigation potential) and membership of LIS co-operatives is much larger than actual area irrigated or persons benefiting The beneficiary families were estimated using the norm of average landholding in the 11 sample LIS, which was 1 32 Ha per beneficiary (the average landholding in the state in 1991 was 2 2 ha, as per the *Economic Survey of Maharashtra*, 1993-94).
7 There is discrepancy in the billed amount estimated in Table 1 and the actual billed amount by MSEB (as per the information available from MSEB) The estimates here are based on the connected load of unmetered IPS, the consumption of metered users, and the applicable tariffs (all data from MSEB annual report). This discrepancy of about 9 per cent may be due to the fact that MSEB reports the number and load of electrified IPS, without accounting for disconnected IPS
8 The norm of 1.8 Hp/ha was found in case of 3 LIS analysed. For large LIS, with a static head of 50 meters, the said cropping pattern, pump capacity of 1 8 Hp/ha and pump operation of 4,500 hours/year, corresponds to overall pumping efficiency of 49 per cent with a water distribution loss of 25 per cent. These efficiencies are close to representative values.
9 Considering cost of meter, installation charges, etc, at Rs 750 per meter
10 Some pump manufactures do offer pumps with power consumption higher than the name plate rating.

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Towards National-Popular
Notes on Self-Respecters' Tamil

M S S Pandian

This article intends to free the language question in Tamil Nadu from the stigma of being dubbed 'anti-national' in the nationalist narrative, and make available alternative ways of imagining politics based on the national-popular will. The article cites the anti-Hindi agitation launched by the Self- Respect Movement in 1937 as a movement where national-popular will found its articulation in mobilising a spectrum of subalternities in support of Tamil.

The vernaculars are written down when the people regain importance. [Gramsci 1985:168]

I
Introduction

IN the pan-Indian national imagination, Tamil Nadu often figures as a space of 'linguistic insubordination'. Among other things, the continued resistance of the region to the imposition of Hindi, which began as early as the 1930s, as well as forms of protest associated with such resistance like self-immolation (which till the anti-Mandal agitation carried the quality of the 'unfamiliar'), are some of the factors which have contributed towards such an imagination.

Within the framework of nationalist narratives, this 'linguistic insubordination' of Tamil Nadu gets written as 'chauvinistic', 'fissiparous' and 'divisive'. For instance, when Jawaharlal Nehru, as the prime minister of India, spoke against the call by the Dravida Munnetra Kazhagam during the late 1950s against Hindi, he was full of anxiety about the so-called national unity: "Mr Nehru warned that the campaign of disunity was doing injury to the country and harming the progress of Madras state. He appealed to the Tamil people not to follow this unhappy path which would destroy them. They should instead work for the building up of a strong united, progressive and prosperous India" [Ramanujam 1967:47]. Similarly, T N Seshan's controversial biography refers to the anti-Hindi agitation of 1965 as "a fissiparous agitation in the name of language" [Kutty 1994:85]. The ontological primacy given to 'nation' in such narratives invests the language issue with a singular connotation, i e, as against the nation, and denies its other possible connotations. Importantly, this containment of meaning makes the language issue available for 'correction' by the homogenising nation-state.

Within this broad context, the present set of notes has a limited agenda: it intends to free the language question in Tamil Nadu from its nationalist reading and to recover the surplus of connotations which are refused within such a reading. This is done through a recounting of the pre-1947 career of the language debate in the Tamil-speaking region. In doing so, I argue that 'Tamil' emerged within the discursive field of the early Dravidian movement as a site for a 'national-popular' project by encompassing a range of democratic concerns connected with caste, gender and region, and involving different subaltern groups.[1] In other words, in the early Dravidian movement's engagement, the language issue attempted to break the people-intellectual separation which was affirmed by the brahmin orthodoxy in Tamil Nadu through Sanskrit, the sacradotal language, and English, the language of colonial governance. This disarticulation between the intellectuals and the people/nation, which was contested by the Dravidian movement by privileging a refashioned Tamil, stood against the possibility of the 'national-popular'.

II
Sanskrit, English and Brahmin Hegemony[2]

Though the brahmins constituted only a little over 3 per cent of the total population in the Madras Presidency, their control over the Madras administration in terms of high-paid jobs with substantial bureaucratic authority was almost monopolistic [Suntharalingam 1980:123; Arooran 1980:38; Irschick 1969:13-16,42]. However, what was at issue in the Tamil political context was not merely their excessive control over the colonial structures of authority; but, more importantly, their stubborn refusal to constitute a modern subjectivity for themselves in the new context: "The upper castes, especially the brahmins found that their intelligence and application brought them rich rewards but at the same time did not entail any obligation which would run counter to their traditional ways of living. They could live comfortably in two worlds, the secularised, modernised atmosphere of their places of work which did not affect their everyday domestic and social life. The law along with teaching and civil service were professions which they could well adopt and yet not infringe their caste or ritual prohibitions" [Srinivasan 1970:184]. In other words, the Janus-faced existence of the brahmin meant that he now combined his pre-existing hegemony in the indigenous society exercised through caste and religion, with his new-found authority in the colonial 'political society' – each spilling into the other. This tightly-woven configuration of power in the hands of the brahmin was a legitimate moment of anxiety for others; and it came out in all its sharpness during the controversy surrounding the elevation of Muthuswamy Iyer to a judgeship at the Madras high court.[3] When 'A Dravidian correspondent', contesting the appointment of Iyer, argued in the columns of *Madras Mail* (September 5, 1878) that the brahmin was "least fitted of all castes to deal fairly with the masses... since he considers himself as a god and all others as Mlechhas" [Suntharalingam 1980:153], he was not only questioning the appointment *per se*, but also the new coalescence of different domains of authority in the brahmin under colonialism.

Intimately linked to the hegemonic location of the brahmin both in the pre-existing indigenous sphere and the colonial political society was his bilinguality. This bilinguality was distinguished by its contempt for Tamil, the language of the masses, and its simultaneous enthusiasm for English and Sanskrit, both languages of exclusion, and hence, of power: "They spoke a colloquial Tamil brahmin dialect, a slang, at home; and impeccable English in office and from public fora; they praised Sanskrit and learnt enough to make a local show of it. They disdained to speak in their mother tongue on public occasions and never felt ashamed to admit that they could not express themselves sufficiently well in Tamil. Some of them became noted great orators in English but none of them could speak a single sentence in Tamil without using a high percentage of English words or loading it with a still higher percentage of Sanskrit. They know the Sanskrit lore, became soaked in western intellectual tradition but remained totally ignorant of Tamil literary and cultural traditions" [Subramaniam 1989:94]. The reason for this particular kind of bilinguality of the brahmin is not far to seek. While English facilitated his access to and authority in the colonial 'political society', Sanskrit, which was celebrated as 'Deva Bhasha' or the language of the celestials, reinforced his hegemony in the indigenous society.

If access to authority was the meaning of this bilinguality for the brahmin, it simultaneously meant exclusion and disempowerment for the Tamil-speaking monolingual subaltern For instance, Gnanambal, the woman protagonist of *Pradhabha Muthaliar Charitram*, which is credited to be the first Tamil novel, talks *in extenso* of the implications of conducting court proceedings in English for the ordinary Tamilian; and concludes, "They return back home without any gain like a blind man who went to watch theatre and like a deaf man who went to listen to music" [Vedanayagam Pillai 1984 302] [4] Being ideologically constituted as the embodiment of brahminical Hinduness,[5] the exclusion based on Sanskrit was more intense and overlaid with the politics of caste. Sanskrit schools, both government-funded as well as those supported by temple endowments, denied by and large admission to non-brahmin students [Varadarajulu Naidu 1991.21-22; Thirunavukarasu 1991.69-72] The brahmin orthodoxy, in affirming the sacradotal status of Sanskrit, simultaneously inferiorised Tamil. Their resistance to conducting Temple 'archanas' in Tamil [Harrison 1960:130-31][6] and their claim that Tamil language and literature were mere derivatives of Sanskrit, an argument which goes back at least to Subramania Diksitar of 17th century [Thirumaran 1992:80] were some of the modes through which the brahmins affirmed the sacradotal quality of Sanskrit and at once, inferiorised Tamil As recently as early 1940s, when Thandapani Desikar sang in Tamil during the Tiruvayaaru music festival, the next singer, a brahmin, refused to sing unless the dais was purified with water and cowdung. And of course, the dais was purified to facilitate his singing.

With the arrival of Indian nationalism, which privileged in more than one way the subject position of the upper caste Hindu male, sanskrit acquired a new connotation and became the sign of Indianness. Theosophical Society started Sanskrit schools in Madras city as well as in other parts of the presidency such as Madurai, Bellary, Nellore, Vizianagaram, Trichinopoly and Guntur, and in founding the Adayar Oriental Library, it attempted a 'national Sanskrit movement' [Suntharalingam 1980:303]. What began under Col H S Olcott in the late 19th century, continued with new vigour under Annie Besant through the early 20th century [Arooran 1980:46], and earned her the dubious appellation 'Irish Brahmani'.

In this new context of nationalism, brahmin nationalist leaders extolled the virtues of Sanskrit, unmindful of its exclusionary dynamics. For instance, P S Sivasamy Iyer, in his convocation address to the University of Madras in 1914, lent his able oratory for the cause of Sanskrit thus:

> If, in the opinion of the most cultivated and thoughtful mind of Europe, the classics have an important place in a scheme of liberal culture, is it too much for claim a place of at least equal prominence to Sanskrit, a language which for flexibility as an instrument of thought and for vocal charm may challenge comparison with any in the world, and can boast of literature containing precious treasures of thought, imagination, beauty and wisdom. As the language which enshrines the highest ideas of Indo-Aryan civilisation, as the language in which the highest achievement of the Hindu mind in the region of philosophic speculation and religion have been recorded, as the language to which most of what is in the vernacular literatures of India owes its inspiration, and as the language in which the ordinances that regulate our social life and institutions to this day have been written, a knowledge of it is an essential element of culture to every Hindu. . (*New India*, November 19, 1914)

We need to bear in mind here that Sivasamy Iyer was addressing a convocation of the Madras University and not an audience owing allegiance to Sanskritic Hinduism. His reference to "our social life" did no doubt exclude all those in the audience whose religion was non-Sanskritic Hinduism or non-Hinduism. As much as Sivasamy Iyer, other nationalists such as S Satyamurthy and C Rajagopalachari too held similar opinion about Sanskrit. For Satyamurthi, Sanskrit gave "a true culture, a real intellectual pleasure and a disciplined mind" [Arooran 1980:99n]; and for Rajagopalachari, Sanskrit is necessary for 'cultural perfection' [Bharati 1937:11]. Interestingly, *Eminent Orientalists: Indian, European, American*, an edited volume brought out by the well known nationalist publisher from Madras, G A Natesan, carried accounts of 25 orientalist scholars including William Jones, Henry H Colebrook, Monier Williams, Max Muller and Paul Deussen, and it ignored totally all those who worked for the revival of Tamil such as Peter Percival, Winlow, G U Pope and Robert Caldwell![7]

In short, the bilinguality of the brahmin in colonial Tamil Nadu, particularly his valorisation of Sanskrit, was marked by the logic of exclusion, an exclusion which, in Gramscian terms, meant the unconnectedness of the intellectuals with the people/nation. In fact, the scenario was rather similar to what Gramsci wrote of the Italian intellectuals of the 1930s:

> In Italy the term 'national' has an ideologically very restricted meaning, and does not in any case coincide with 'popular' because in Italy the intellectuals are distant from the people, i e, from the 'nation'. They are tied instead to a caste tradition that has never been broken by a strong popular or national political movement from below... The current term 'national' is connected in Italy to this intellectual and bookish tradition. Hence the foolish and ultimately dangerous facility of calling 'anti-national' whoever does not have this archaeological and moth-eaten conception of the country's interest [Gramsci 1985:208].

III
Nationalism and Incomplete Appropriation of Tamil

With Indian nationalism entering its mass-mobilisation phase during the 1910s, the leadership of the Tamil Nadu Congress, though dominated by the brahmins, could not shut out Tamil fully. The need to appropriate Tamil for the cause of nationalism was accentuated, in addition, by the arrival of the non-brahmin movement in the form of the Justice Party in 1916. Significantly, the decisions to fight the Justice Party and to employ Tamil for nationalist propaganda were taken together by the Congress leadership. As P Varadarajulu Naidu recounted the story,

> It was in August 1916 . that Dr T S S Rajan, the late Mr V O Chidambaram Pillai, Mr C Rajagopalachariar and myself, met at the residence of Mr Rajagopalachariar at Salem After discussing the then political and communal [an allusion to the politics of the Justice Party] situation in South India for over three hours between 9 and 12 O'clock in the night, we decided to stand together ..The outcome of our midnight and historic meeting was the formation of the Madras Presidency Association in 1917 to fight the Justice Party, the campaign against Dr Annie Besant and the first attempt made to carry on political propaganda in the Tamil language [Anonymous 1948:6]

Though both the brahmins and the non-brahmins in the Congress leadership participated in this project of employing Tamil for nationalist mobilisation, it was the non-brahmins who showed greater enthusiasm. During the Home Rule Movement, Varadarajulu Naidu declared, "I have felt that for the national uplift and the attainment of real and enduring Home Rule in India, the political concepts, aims and methods of work which have hitherto been the exclusive possession of English educated people should be brought within the familiar reach of people at large, through the medium of their mother tongue" [Irschick 1969:306]. Similarly, in 1919, S Somasundara Bharati got a resolution passed in a Congress meeting that speeches at political meetings should be made in Tamil instead of in English. There was a number of other non-brahmin leaders who were part of this Tamil-enthusiast nationalist band: while Thiru Vi Kalyanasundara Mudaliar radicalised Tamil journalism through *Desabhaktan* and *Navasakthi*, V O Chidambaram Pillai of

Swadeshi Movement fame, was an equally important figure in this respect.

In contrast, the brahmin leaders of the Tamil Nadu Congress, even while instrumentally using Tamil for political mobilisation, refused to let go their attachment to Sanskrit. While S Satyamurthy and V V S Iyer used a hybrid Tamil with lots of Sanskrit words (which had Tamil equivalents in popular usage), the brahmin-run nationalist daily *Swadeshamitran* (unlike Thiru Vi Kalyanasundar Mudaliar's *Desabhaktan*) employed a large number of Sankrit and English words [Diraviyam 1974:120, 141-43, 146]. Satyamurthy went to the extent of defending his hybrid Tamil as the most effective political language. More importantly, this refusal to abandon Sanskrit manifested acutely during critical junctures like the debate on the coining of scientific terms in Tamil. In such contexts, they stood on the side of Sanskrit [Irschick 1969:305; Nuhuman 1985:158] In other words, though the Indian nationalism's need to mobilise the masses by employing their mother tongue did create breaches in the boundary between brahmin/Sanskrit and non-brahmin/Tamil binary, such breaches were insufficient to erase the old divide.

Perhaps an interesting illustration of this continuing divide between the brahmins and the non-brahmins on the language issue would be the encounter between Subramania Bharati and V O Chidambaram Pillai. While Bharati argued that Tamil script should include new symbols to enable foreign names to be written in their original form, Chidambaram Pillai posed, "Everyone of those who have thus far proposed the reform of Tamil script has some link or the other with Sanskrit and why they have not proposed similar reforms in the script for Sanskrit" [Venkatachalapathy 1996:141]. While both were part of the nationalist formation in Tamil Nadu and showed great passion for Tamil, Bharati was a brahmin and Chidambaram Pillai, a non-brahmin.

Strikingly, a number of these non-brahmin Tamil enthusiasts within the Congress got estranged with Congressite nationalism either on the question of caste or language – both of which, as we have seen, were closely linked in the Tamil context. Varadarajulu Naidu left the Congress in 1928 protesting against the separate dining arrangements for the brahmin and non-brahmin students practised in the Seranmadevi Gurukulam, a national school partly funded by the Congress. Somasundara Bharati joined the anti-Hindi agitation of the late 1930s opposing Rajagopalachari's decision to introduce Hindi in schools. Thiru Vi Kalyanasundara Mudaliar aligned himself with the non-brahmin movement on an anti-Hindi platform in the 1940s. Chidambaram Pillai, during his last days, left the Congress and joined the non-brahmin movement.

IV
Reinscribing Tamil: Towards 'National-Popular'

The Self-Respect Movement, which was formed as part of the revolt against the Indian National Congress's unwillingness to address the issue of caste-based oppression in the Tamil region, took a self-consciously active role in problematising the exclusionary politics of Sanskrit.[8] The founder of the Self-Respect Movement, E V Ramasamy (who interestingly carried the appellation of an anti-national all through his non-Congress career) and his close associates like Kootusi Guruswamy engaged themselves in a sustained critique of Sanskrit's claim to superior forms of knowledge/culture.

This critique primarily proceeded from a rational-utilitarian premise of what different languages are capable of in negotiating the current situation of powerlessness which marked the social life of the Tamil masses. In 1939, when Hindi was a burning issue in the Tamil-speaking region, E V Ramasamy outlined his stance on language question thus:

> I do not have any attachment to the Tamil language for [the reason] that it is my mother tongue or the tongue of the nation I am not attached to it for [the reason] that it is a separate language, ancient language, language spoken by Shiva [or] language created by Agastiyar I do not have attachment for anything in itself. That will be foolish attachment, foolish adulation I may have attachment [for something] for its qualities and the benefits such qualities will result in I don't praise something because it is my language, my nation, my religion...
> If I think my nation is unhelpful for my ideal and cannot [also] be made helpful, I will abandon [it] immediately. Likewise, if I think my language will not benefit my ideals or [will not help] my people to progress [and] live in honour, I will abandon it .. [Chidamparanar 1983:214]

Within this framework of reasoning, Sanskrit emerged as a language which denied equality, honour and progress to the subaltern sections of the Tamils – lower castes, women, working people and so on.

One of the central concerns of the Self-Respect Movement's engagement with language question was, of course, caste. In tracing the link between Sanskrit, caste and brahminic Hinduism, E V Ramasamy, for example, queried, "Let us have a look at the harm already done to and will be done to us because of Tamil's association with Sanskrit. Let us take the problem of caste among us. If the Sanskrit word 'jati' is removed from Tamil language, is there any equivalent Tamil word for it. Let the [Tamil] pandits answer. Alas! No word! It is clear that there was no caste system among our people in the ancient days; and it emerged [among us] due to our association with the north. Similarly, [take the example of] words such as 'Divasam', 'Kalyanam', 'Vaikundam', 'Swargam', 'Moksham', 'Naragam', 'Sloka', 'Swaruba'....Aren't they Sanskrit words? Are they Tamil words? Have we got enlightened because of these words? Or, have we lost our power of reasoning?..." [Aanaimuthu 1974:II,969]. In other words, the Self-Respect Movement inverted the brahmin/nationalist construction of Sanskrit as a sign of superior culture and reinscribed it as a field of cultural production introducing and legitimising inequalities based on Hinduism and its caste system.

In popularising this non-elite reading of Sanskrit among the broad masses, the movement, among other things, set aflame in public Sanskritic texts which endorsed caste, particularly *Manusmriti*. Expectedly, it led to much despair among the brahmin nationalists; and Rajagopalachari, for instance, referred to such book-burning as "suicidal crusade against the language, literature, the customs and the sacred books of Sanskrit" [Irschick 1969:339]. Importantly, such campaign did succeed in creating a broad consensus among the non-brahmin intelligentsia in Tamil Nadu about the connectedness of Sanskrit with caste-based oppression. Most of the pamphlets brought out during the anti-Hindi agitation of the late 1930s repeatedly referred to such a connection. As one of these pamphlets recounted the argument, "'Hindu' 'Matham' [religion] – these two words are Sanskrit words...It is the ignorance of the Tamil people that they call it [Hinduism] their religion...It is this religion that created jati in Tamil Nadu which knew no caste system. It is because Tamilians allowed Sanskrit to influence their lives and fell prey to Hindu religion and superstitious beliefs, they lost their self respect and became [like] beasts..." [Selvarajan, nd:25].

For the Self-Respect Movement, Sanskrit not merely led to the degradation of lower castes, but also of women. Here, the movement targeted for criticism the Sanskritic marriage customs which affirmed women's subordination. As E V Ramasamy argued,

> Only with the arrival of words such as *Thara Mukurtham* and *Kanniga Dhanam*, our women became puppets of their husbands. Only after [the arrival of such words], we landed up with such fathers who advise their daughters, who return after some quarrel with their husbands, that they had been gifted away to their husband and they belong to his place. Can you find an equivalent word for *Kanniga Dhanam* in Tamil? Thiruvalluvar

called it as *Vazhkkai Thunai* [life partnership]. It only means that husband and wife are friends What a vast difference in thought... At least, is there a Tamil equivalent for *Pativratha*? This is also a harmful result of our association with Sanskrit. . [Aanaimuthu 1974:II, 969-70]

Similarly, in the course of the anti-Hindi propaganda in 1948, he despaired, "How much one had struggled to change *Kanniga Dhanam* into *Vazhkkai Thunnai Oppantham* [contract of life partnership]? How much trouble one was faced with in erasing the word *Mangalya Dharanam*?..." (*Indi Pour Murasu*, 1948:16-17). In keeping with this critique, activists of the movement like Moovalur Rammamirtham Ammiyar used to translate Sanskrit slokas into Tamil during self respect marriages and elaborate how they embodied and reinforced women's subordination to men [Thirunavukkarasu 1991· 171]."

The third moment of Self-Respect Movement's critique of Sanskrit was related to the devalued representation of south as a region in Sanskrit texts. Here, *Ramayana* was reread and interpreted as a text celebrating northern imperialism. Harrison (1960: 127-28) sums up rather pointedly this campaign against *Ramayana* by the Dravidian Movement thus:

> The Dravidian argument is based on the very substance of Hindu mythology, and *The Ramayana*, so proudly hailed as a force of synthesis, becomes the basic text cited to establish Aryan inequity In Dravidian propaganda the southward march of Rama to the lair of evil King Ravana, abductor of Sita, is nothing less than the allegorical story of the triumphal Aryan progress over the original inhabitants of India. To many a non-brahmin Tamil, the legions of monkeys Rama encountered in the southern jungles appear to be none other than the Dravidians .. The Dravidian movement rewrites *The Ramayana* to cast Ravana as a Dravidian hero repelling Rama, the invading Aryan generalissimo. Touring dramatic troupes parody the epic . When Rajagopalachari, a brahmin, was chief minister of Madras in 1954, he ordered police to search out the troupes, which were forced to perform in clandestine gatherings, and even took to the All-India Radio to mobilise a 'Ramayana Protection Committee'.[10]

The campaign did not even spare the Tamil version of *Ramayana* written by Kamban. Addressing those who defend *Kamba Ramayanam* on the basis its aesthetic merits, E V Ramasamy noted, "They say [*Kamba*] *Ramayanam* is a rare literature. What is the use? However starved one is, would one pick up food from shit...How can anyone who desire self-respect read Ramayanam?..." [Aanaimuthu 1974:II, 977].

If the Self-Respect Movement's critique of Sanskrit disinvested it of its claim to superiority and recast it as a vehicle for multiple forms of disempowerment, it read English as a language of modernity rather than as one of colonial governance. In defence of English, E V Ramasamy claimed, "We learn about the means to improve our lives from books written in English. In short, it is no exaggeration to say that it is the knowledge of English which kindled the spirit of freedom in our people who had been cherishing enslaved lives. It is English which gave us the knowledge to say 'no' to monarchy and 'yes' to republic; to say 'yes' to socialism and 'no' to *Sanathanam*. It gave us the knowledge that men and women are equals..." [Aanaimuthu 1974:II, 970-1]. He continued, "It is not our Tamil or Sanskrit which came to destroy it, but it is English, which gave us telegraph, electricity, cinema, aircraft, radio and X-ray. Sanskrit enslaved our reason through the superstitions of Shastras, Puranas and Ithihasas. English freed us from such chains of bondage and made us think on the basis of rationality ..." (Ibid:971).

In other words, while English functioned as a form of cultural capital and an instrument to access bureaucratic authority for the upper caste, particularly brahmin, elite, it had a different connotation in the discourse of the Self-Respect Movement For the movement, it is a carrier of enabling ideas which could be mobilised to interrogate the pre-existing arrangement of power in the Tamil society and to recover a space for subaltern assertion. Such a reading of English was greatly facilitated by the location of the Self-Respect Movement in the Tamil political milieu as not circumscribed by mere anti-colonialism.

Let us now turn to the manner in which the Self-Respect Movement engaged with Tamil. Significantly, the movement did not view the opposition between Sanskrit and Tamil as a pure, absolute opposition. Though Tamil as an embodiment of social relations was better than Sanskrit, it required refashioning so as to free it from a range of social exclusions and disempowering implications inherent in its current form, i e, refashioning Tamil was part of the movement's agenda to negotiate multiple forms of disempowerment faced by the Tamil subaltern classes.

Towards such an agenda, the movement strived hard to dissociate Tamil from its fossilised historicity. In 1943, when separate Dravida Nadu was very much on the agenda of E V Ramasamy, he wrote, "The unnecessary ancient principles of the Tamils...have become useful [only] for deceiving outsiders and plunging [oneself] into foolishness. It has become the duty of the rationalist that such talk [about ancient Tamil ideas] should not be evoked for any reform from now on." He proceeded further: "If several of our 'pundits' do not have rational thinking, it is because of the obscurantism of the ancient Tamil principles. There is nothing at present to be achieved by the talk of ancient Tamils. Therefore it is an important duty of the people not to give any place for such fraudulent speech..." [Aanaimuthu 1974: II, 1251-52]. A striking illustration of E V Ramasamy's contempt for the Tamil past could be his reaction to the glorification of ancient Tamil women by the leaders of the anti-Hindi agitation of the late 1930s. He intervened to tell them: "It will be worth-while if you discuss the present status of women and what can be done about achieving women's freedom, instead of glorifying our grandmothers like Allirani, Kannagi and Madhavi" (*Kudi Arasu*, November 27, 1938).

Thus locating the role of Tamil in the anticipatory, the movement developed a critique of Tamil as embodying retrogressive cultural practices in the present. The cultural practices which drew the utmost attention of the movement were related to religion and gender. The propagandists of the Self-Respect Movement entered into bitter conflicts with the non-brahmin Saivite elites who promoted Tamil as the language of Saivism and Saivite culture as well as with the Tamil pundits who taught the language through the medium of religious texts. Kuthoosi Guruswamy, for instance, critiquing the Tamil pundits, noted, "...They are obsessed with Tamil purism. Other than that, they only know how to teach Tamil literature through Puranas. For instance, while explaining *Kamba Ramayanam*, they teach that Rama is an incarnation of Maha Vishnu, Sita is the incarnation of Goddess Lakshmi, and Hanuman could lift an entire mountain; and that it is sinful not to believe in all these On listening to this, can any student understand and enjoy the literary merits of Kamban? Instead the students spend their time worshipping Rama and seeking his blessings" [*Puthuvai Murasu*, October 26, 1931, cited in Velu and Selvaraju 1989:10] Towards desacralising Tamil, the Self-Respect Movement campaigned against the singing of Saivite hymns in Tamil conferences, teaching religious texts as part of Tamil language courses and carrying invocations to god in textbooks [Velu and Selvaraju 1989]. While the movement encouraged Tamil music, it opposed singing of bhajans in Tamil. Ridiculing the singing of bhajans in Tamil as part of the Tamil music movement, E V Ramasamy commented, "What [good of] bhajans whether they are in Tamil, Telugu, Hindi, Japanese or German. After all, which language god does not know" [Kesavan 1991:48].

In a similar fashion, the self-respecters criticised Tamil as a bearer of gender inequalities. *Thirukkural* and *Silapathikaram*, two important classical Tamil texts, came in for barbed criticism for they degraded women and denied them equality with men.

E V Ramasamy characterised *Silapathikaram* as a text "which began in prostitution, grew in 'chastity' and ended up in foolishness and superstition". We may note here that chastity, for him, signified women's unfreedom. Similarly, despite his qualified approval of *Thirukkural*, he subjected it to severe criticism for emphasising women's subordination by glorifying chastity. He noted with contempt that Tamil did not have words for the male counterpart of adulterous and widow. He invented the neologisms *vidavan* for widower and *vibacharan* for those men who visit prostitutes, and suggested their popular use. He also noted that several Tamil words such as *Aanmai* (masculinity) were derogatory to women:

> Women should not forget that the word *aanmai* itself is used in derogation to women... As long as *aanmai* will exist, women's slavery will only grow. It is definite that the emancipation of women will not materialise till women themselves destroy the philosophy of *aanmai* Freedom, valour and such qualities are made the right of men. Men have decided that these [qualities] belong only to *aanmai* [11]

Let me now quickly sum up the important points which emerge out of the foregoing account of Self-Respect Movement's engagement with the question of language. First of all, it bared open the exclusionary politics of Sanskrit and its disempowering implications for the lower castes and women. Second, it tried to refashion Tamil as an inclusive cultural field. Finally, this inclusivity was premised on multiple contestations against different forms of oppression based on caste, gender, religion and region.

V
1937: Signs of the 'National-Popular'

The decade-long propaganda by the Self-Respect Movement in recasting the language issue as a site for disempowered social groups to articulate their politics of emancipation, showed signs of success in 1937. As is well known, in 1937 the Congress ministry headed by C Rajagopalachari introduced compulsory study of Hindi in schools in the Madras presidency. Though Hindi was presented as the national language, its introduction in schools was defended by the Congress leadership in terms of its closeness to Sanskrit and the possiblitiy of having access to northern Hindu religious texts. Rajagopalachari claimed that Hindi would, among other things, help in learning Sanskrit and reading Tulsi Ramayana. The brahmin-controlled press too used the occasion to plead for Sanskrit. For instance, *Ananda Vikatan* (October 17, 1937) not only defended the introduction of Hindi in schools, but also asked the government to introduce Sanskrit in higher classes as an optional course [Ramasamy 1974:2]. The agitation launched by the Self-Respect Movement against Hindi continued from 1937 to 1940 and finally succeeded in evicting it from schools.

As we have noted elsewhere in the paper, a large number of anti-Hindi pamphlets published during the agitation, though most often not by self-respecters themselves, spoke of the connection between caste and Sanskrit as well as the degrading marriage rituals brought in by Sanskritic Hinduism. Surely these are signs of Self-Respect Movement's stance on language gaining the quality of common sense. Also the agitation drew large numbers of people. While an anti-Hindi meeting in Madras held on June 26, 1938 witnessed a gathering of 50,000 people, a similar meeting in Viruthunagar held on July 10, 1938 attracted 10,000 people. About 5,00,000 people in total participated in 87 such meetings organised in the mofussil areas of Tamil Nadu [Kesavan 1991: 66]. Significantly, a large number of the participants in the agitation were drawn from the subaltern stratas of the Tamils, thus adding a national-popular character to it. Among other things, the presidency magistrate's reason for denying rice diet to the anti-Hindi prisoners brings out this fact candidly. As he noted,

> It is a fact that rice diet was refused to picketers who were sentenced. It was clear after a series of batches of picketers were enquired that they were persons having no ostensible means of livelihood and they were being seduced to go over to Madras to commit acts in violation of law and then prefer to go to jail. Even though in every case there was an offer made to them by me to release them under section 562 Cr P C, in order that they may attend to their normal avocations, they refused to execute bonds and preferred to go to jail and when sentenced batch after batch had only one request to make, viz, that they wanted rice diet. It looked as if they had been sent with the hope that they would be given rice diet and that the inconvenience to them was less compared with the embarrassment to government. As it was the rice diet that seemed to be the main inducement to them I declined to give it in order to deter other picketers coming in. They did not also deserve rice diet.[12]

What the presidency magistrate failed to mention was the fact that denial of rice diet did not stop the anti-Hindi picketing. It rather became more intense. We need to bear in mind here that though a large number of self-respecters volunteered to particpate in the agitation, the movement instructed only those who could pay their train fare and bring their own clothes to join the picketing [Irayan 1981:108].

Like the volunteers, even the new leaders who emerged through the agitation were drawn from the ranks of the ordinary. The case of Swami Arunagiri Nathar is rather instructive here. The official characterisation of Arunagiri Nathar ran as follows:

> He indulged in such scurrilous attack against the Premier's character and actions that I came to the conclusion...that none but a person of very depraved character was capable of indulging in such abuse of others at a public meeting. It was quite clear from his speeches that the title of swami assumed by him as well as his holy garb were only cloaks covering up a wicked nature...The [police] report received was to the effect that the petitioner was an itinerant preacher with no fixed place of residence. He came to notice recently in the anti-Hindi movement. He was then staying in a mutt on the Thiruvattiyur High Road. Beyond this nothing is known of his status...The sub inspector wrote that from his enquiries, he found the man's habits and associations were of low order...[13]

Importantly, Arunagiri Nathar's so-called scurrilous attack was framed in terms of anti-brahminism; and the songs he wrote against Hindi, which inspired a large number of anti-Hindi volunteers, contained all the ingredients of Self-Respect Movement's stance on Sanskrit.

In keeping with this trend of large-scale subaltern participation in the agitation, the first anti-Hindi volunteer to die in prison was L Natarajan, an Adi Dravida. Reporting his death in the Madras legislative council, Rajagopalachari referred to him as "an illiterate harijan". His illiteracy came to signify for Rajagopalachari and other nationalists the illegitimacy of the anti-Hindi agitation – as the following snatch of discussion that took place in the Madras legislative council shows:

> Sri K V R Swami: "How did this illiterate man who had no knowledge of even his mother tongue happen to take part in the anti-Hindi movement?"
> The Hon Sri C Rajagopalachariar: "A very interesting and relevant question, Sir, but the government cannot answer it."
> Abdul Hameed Khan Sahib Bhahadur: "May I know, Sir, whether it was due to his illiteracy that he got this illness?"
> The Hon Sri C Rajagopalachariar: "It was due to his illiteracy that he picketed and it was due to his picketing that he happened to be in the jail, but his illness was certainly due to other causes" (Laughter) [14]

While Rajagopalachari and other nationalists foregrounded the connection between language and literacy/scholarship/knowledge, what they refused to acknowledge was that language was a question of power. What escaped their attention was that langauge issue in the region has already emerged as a site for the subaltern classes to articulate their emancipatory desires by problematising disempowerments based on caste, gender and region, and not merely the

desire for literacy. Responding to Rajagopalachari's comments, *The Justice*, an ally of the Self-Respect Movement, wrote, "What the premier obviously wanted to suggest was that opposition to cumpulsory Hindi from illiterates need not be treated with any respect or consideration. This is not a right attitude for a government, which claims to be popular, to take..." (*The Justice*, January 25, 1939).

Not lagging behind these ordinary men, a large number of ordinary women also took part in the anti-Hindi agitation. In all, 73 women were arrested and jailed for their involvement in the agitation. Several of them went to jail with their children. An exasperated member of the Congress ministry, T S S Rajan, the minister for public health, commented that women were getting arrested to get milk for their children in jail [Anandhi 1992: 199]. While E V Ramasamy was jailed for inciting women to participate in the agitation, it was a women's conference which gave him the title 'Periyar' or the 'great one' as he was languishing in jail. What needs to be kept in mind here is that, unlike the Congress, the politics of the Self-Respect Movement never carried the middle class stamp of respectability; and even so all these women found it worthwhile to lend their participation to the anti-Hindi agitation.

The participation in the anti-Hindi agitation by such subordinate sections as the sudras, Adi-Dravidas, women and illiterates was in conformity with the manner in which language issue was addressed by the Self-Respect Movement as an element in the politics of empowerment. The emergence of such an historic bloc based on a spectrum of subalternities, however transient it had been, was a moment of national-popular will finding its articulation.

Writing of the need for an unified language for the nation so that an "organic unity between theory and practice, between intellectual strata and popular masses, between rulers and the ruled" gets established, Gramsci notes, "What this language will be, one cannot foresee or establish: in any case, if the intervention [for such a language] is 'rational', it will be organically tied to tradition, and this is of no small importance in the economy of culture" [Gramsci quoted in Forgacs 1993: 188]. For Gramsci, tradition here stands for the connectedness with the people. The Self-Respect Movement's politics around Sanskrit and Tamil, recounted in the preceding sections, may be viewed as a search for such a language. The career of this search was marked by new ways of interrogating and reconstituting pre-existing relations of authority and subordination in the Tamil society; and held out, as a consequence, possiblities of forging a broad historic bloc with the agenda of reordering the society on a democratic basis. This is central to any national-popular project aiming at overcoming the disarticulation between the 'nation' and the people.

While the nationalist narratives, by reducing the meaning of the language question in Tamil Nadu as singularly anti-national, makes invisible alternate ways of imagining politics based on the national-popular will, it is ironically the voice of the so-called 'anti-national' which recovers such politics for us. At least in the particular historical context of Tamil Nadu.

Notes

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1 For helpful commentaries on Gramsci's concept, national-popular, see Simon (1988:23-24, 42-45) and Forgacs (1993)

2 This section is substantially drawn from Pandian (1994)

3 For details of the controversy, see Suntharalingam (1980:151-56).

4 In the novel, Gnanambal proceeds further and says, "Whoever learns whatever language, the country of that language is the appropriate place for them. Hence, we shall send those who learn English alone, without learning their mother tongue, to England; those who learn French alone to France. Since Latin and Sanskrit do not have countries of their own, we shall send those who learn these languages to anonymous islands" [Vedanayagam Pillai 1984: 310].

5 According to the late Sankaracharya of the Kancheepuram Mutt, a relentless defender of brahminism, "It is wrong to hold language as superior to religion or god. If it [the defence of Sanskrit] is just for the sake of language, I would say 'no' to Sanskrit. But all the vedas and shastras are found in that language. So I am saying to protect vedas and shastras, we should protect Sanskrit" [Chandrasekerendra Saraswati Sankaracharya 1992:I, 312].

6 During the 1970s, M Karunanidhi, the DMK chief minister of Tamil Nadu, attempted to implement archanas in Tamil, which was resisted, as in the past, by the brahmins. A provoked Karunanidhi announced, "If the right to perform archanas in Tamil is denied, Sanskrit considered as devabhasha [language of Gods], and along with that god and religion also, will be driven out from Tamil Nadu to north India" [Presler 1987:130].

7 The claim that Sanskrit is the means to Indianness continues with vigour even today. In a recent judgment on teaching Sanskrit as elective subject in secondary schools run by the central board of secondary education, the Supreme Court observed, "Without the learning of Sanskrit it is not possible to decipher the Indian philosophy on which our culture and heritage are based". Elaborating further, it noted, "It is well known that Sanskrit is the mother of all Indo-Aryan languages and it is this language in which our vedas, puranas and upanishads have been written and in which Kalidas, Bhavbuti, Banbhatta and Dandi wrote their classics. Teaching of Sankaracharya, Ramanuj, Madhwacharya, Nimbarkand Vallabhacharya would not have been available to them as a medium of expressing their thought" (Santhos Kumar and others vs the secretary, ministry of human resource development 1994).

The Self-Respect Movement was launched by E V Ramasamy, after he broke ranks with the Indian National Congress. His active sojourn in the Congress came to an end in November 1925 when two of his resolutions seeking 'communal reservations'(i e, caste-based reservations in favour of the non-brahmins) were disallowed in the Kancheepuram conference of the Tamil Nadu Congress. Thereafter, he declared his political agenda to be 'no god, no religion, no Congress, and no brahmins'. For accounts of the Self-Respect Movement, see Chidamparanar (1983); Visswanathan (1983); Arooran (1980:152-251); Anandhi (1991); Pickering (1993); and Pandian (1993).

For details of Rammirtham Ammaiyar's activities in the Self-Respect Movement, see Anandhi (1991b).

10 For more details on the campaign, see Richman (1992).

11 All the details in this paragraph are drawn from Anandhi (1992: Chapter IV).

12 Public (General), GO No 394, dated March 3, 1939, Tamil Nadu Archives.

13 Ibid.

14 Proceedings of the Madras legislative council, January 18, 1939. Significantly, the elite contempt for the participation of illiterate common masses in language agitations continues. Referring to the 1965 anti-Hindi agitation, Kutty (1994:86) writes, "Mobs of illiterate and semi-illiterate Tamil people, mostly poor, lapsed into fits of fury in the cause of so remote a language, English. Hindi was no more foreign to them than English They were boggled by borrowed visions of domination their leaders conjured up..."

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Domestic Product by Gender in the Framework of 1993 SNA

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This paper attempts (i) to examine the production boundary in the 1993 SNA from the point of view of capturing the activities of women in the estimation of domestic product, (ii) to measure housewives' services in the concept of Extended Net Domestic Product and in the satellite accounts provided in the 1993 SNA framework, and (iii) to estimate the share of women in the Extended NDP. Concepts, data availability and gaps in it for estimating domestic product by gender are also discussed.

IT hardly needs to be dilated that the productive efforts in the society affecting the micro and macro economy and welfare include not only market production but also household non-market production. However, the official statistical system does not fully reflect this. Much of the work of women, particularly household women which forms a major part of the household non-market production, goes unreported in the accounting framework of the System of National Accounts (SNA). This is partly because of convention and partly because the work which connotes human effort devoted to production of goods and services having utility but does not necessarily generate income by way of marketability and hence poses measurement problems. So it is primarily the contribution of women to the economy and welfare that is made invisible (see for example, Eisener 1989, Ironmonger 1989, Goldschmidt-Clermont 1990 and Chadeau 1992).

This paper attempts (i) to examine the coverage, i e, production boundary in the 1993 SNA, from the point of view of capturing the activities of women in the estimation of domestic product by gender, (ii) to measure the value of housewives' services (at 1980-81 prices) in the concept of Extended Net Domestic Product (NDP) as suggested by Mukherjee (1985 a, b) and also in the satellite accounts provided in the 1993 SNA framework, and (iii) to estimate the share of women in the Extended NDP. Concepts, data availability and gaps therein for estimating the domestic product by gender have also been discussed *inter alia*.

System of National Accounts

The System of National Accounts (SNA) consists of a coherent, consistent and integrated set of macro-economic accounts based on a set of internationally agreed concepts, definitions, classifications and accounting rules. It provides comprehensive accounting framework within which data can be compiled and presented in a format, i e, designed for the purposes of economic analysis, decision-taking and policy-making. The accounts themselves present in a condensed way a great mass of detailed information organised according to economic principles and perceptions about the working of an economy. The 1993 SNA may be implemented at different levels of aggregation: at the level of individual economic agents, from institutional units to the level of the total economy. Certain key aggregate statistics such as Gross Domestic Product (GDP) that are widely used as indicators of economic activity at the level of the total economy are defined within the system for calculation of such aggregates has long ceased to be the primary purpose for compiling the accounts. The United Nations (UN) has played an important role in the development of the SNA. For example, the 1953 SNA, the first one, set out a standard national accounting system in order to provide a framework for reporting national income and product statistics which is of applicability and it did influence the development of national accounts statistics all over the world. The 1968 SNA as a result of revision was an elaborate system giving emphasis of consolidated set of accounts and Input-Output Transactions Tables (IOTT). The 1993 SNA (latest revision) is a much more elaborate and comprehensive system harmonised with other statistical systems such as Balance of Payment Statistics, Government Finance Statistics, etc. The 1993 SNA represents a major advance in national accounting. Adoption of the 1993 SNA was unanimously recommended to the United Nations Economic and Social Council by its Statistical Commission at its 27th Session. The Council recommends that member countries consider adopting the recommendations of the 1993 SNA as the international standard for the compilation of their National Accounts Statistics, to the extent possible, to promote the integration of economic and related statistics as an analytical tool and in the international reporting of comparable national accounts statistics. Till recently the socialist countries were following the Material Product System (MPS) where services in general were not taken into account, but now the 1993 SNA has been recommended to be adopted by all the countries. The 1993 SNA treats such countries which are in transition (from MPS to SNA) as a special case. The history of SNA combines two concerns; the development of national accounting and the internationalisation of statistical concerns. The internationalisation history, in turn, encompasses two concerns, the comparability of economic statistics and the development of international standards and guidelines.

Gross Domestic Product

Gross Domestic Product (GDP) of a country, by definition, is equal to the sum of the gross value added of all resident institutional units engaged in production plus any taxes less any subsidies on products not included in the value of their output. So, gross value added by all production activities within the geographical boundary of a country is not its GDP because it may exclude some of the production of a resident institutional unit taking place abroad. Conversely, some of the production within the country may be attributable to foreign institutional units. An institutional unit is said to be resident within the economic territory of a country when it maintains a centre of economic interest in that territory – that is, when it engages or intends to engage in economic activities or transactions on a significant scale either indefinitely or over a long period of time, usually taken as one year. In measuring the output, it is essential to take account of all the goods and services produced during the period whether these are marketed (i e, exchange for money) or bartered (i e, exchanged for other goods and services) or used for self-consumption (e g, agricultural products consumed by the farmers). This measure should be such that production of any particular item is not counted twice. Though it is said that all goods and services whether marketed, bartered or used for self-consumption are taken into account but the fact remains that there is a conventional boundary line and not all goods and services produced for self-consumption are taken into account. Certain activities are excluded, as convention, in the estimation of GDP, these primarily relate to illegal activities such as smuggling, black-marketing, prostitution, etc.

In addition, the services of housewives, i e, production of goods and services by the women in the house for the consumption of household are also excluded mainly because of the problem of measurement. The 1993 SNA recommends inclusion of illegal activities within the production boundary. It also recommends some of the activities undertaken by the women for example, carrying water for self-consumption and goods produced by the household and consumed, in the estimation of domestic product.

There are three approaches used in the measurement of GDP. First, known as production approach, where the domestic product is estimated in each of the sectors of the economy by considering its output and subtracting the value of material inputs. These sectoral GDP are then added over to arrive at the GDP of the economy. The second approach is the income approach. In the process of production, income generates to the factors of production, namely, labour and capital. In other words, the income is distributed in the form of either capital income (return on capital) to the owner of the capital or labour income (wages, etc) to the labour employed or mixed income to individuals who are partly owners of capital and partly work as self-employed labour for production in their own enterprises. The distributed capital income is mainly in the form of dividend, interest and rent on land. In detail if the four factors of income, namely, labour, land, capital and entrepreneurship are considered then the shares of these factors which are called the factor shares consists of wages and salaries, rent, interest, dividend and profit or loss. These factor incomes when added along with the consumption of fixed capital make GDP by income approach. The third approach of the estimation of GDP is the expenditure approach which consists of the final bill of goods and services. Thus, in the expenditure approach the GDP is arrived at by adding the final expenditure namely, Private Final Consumption Expenditure (PFCE), Government Final Consumption Expenditure (GFCE), Gross Fixed Capital Formation (GFCF), net exports and additions to stock. The Net Domestic Product (NDP) is obtained from the GDP by subtracting consumption of fixed capital. The difference between the GDP and Gross National Product (GNP) is the net income earned from abroad. The popular term national income is the Net National Product (NNP) at factor cost. In India, the GDP is estimated by mixed approach, i e, in some of the sectors production approach is followed and in other sectors, income approach is followed. Basically, the production approach is followed in the sector of agriculture, forestry, fishing, mining and manufacturing. The income approach is followed in the service sectors.

Estimation of GDP by Gender

Directly it is not possible to determine the share of GDP by gender when the approach followed is either the production approach or the expenditure approach. However, by following income approach the share of GDP by gender can be arrived at making use of the information on the working force and the corresponding wage per worker by gender. Thus, in the sectors where the income approach has been followed in the estimation of GDP, GDP by gender can be arrived at provided information on working force by gender and wage differentials are available. The working force by gender is available from the Population Census Data but the data on wage differentials in various sectors of the economy are scanty. It may be mentioned that as far as organised sectors are concerned, particularly the public sector, where there is no wage differential, the GDP by gender can be arrived at just by using information on the working force. It is the unorganised segment of the economy where concerted efforts have to be made to obtain the information on wage differentials and more importantly capturing the women's participation in the economic activities through the working force by carefully asking questions at the time of Population Census.

In the sectors where production approach is followed in the estimation of GDP, directly the share of GDP by gender cannot be obtained. But even for these sectors, factor incomes have been estimated utilising information from various sources. In the factor incomes, the compensation of employees is as usual the product of working force and the wage rate and so it can be divided by gender. As regards the operating surplus, ideally speaking, one can attempt the division of operating surplus by gender provided the ownership of enterprise/activity is available by gender. There would no doubt be difficulties in getting the requisite data for bifurcating the operating surplus by gender.

In the expenditure approach, where the GDP is the sum total of the final bill of goods, one can think of identifying the final consumption by gender. This would require information on PFCE, GFCE and GFCF by gender and so on. The PFCE can be divided into male-female components by using population-sex ratio provided consumption within the household is assumed to be gender neutral and if not, then consumption differentials by gender have to be estimated by mounting special surveys/studies. Too many assumptions would be involved and therefore, not much interest in deriving GDP by gender through this approach.

Unpaid Work of Women in the 1993 SNA

The production boundary of 1993 SNA draws on the distinction between goods and services. It includes the production of all goods within the production boundary and the production of all services except personal and domestic services produced for own final consumption within households [other than: (i) the services of owner-occupied dwellings, i e, imputed housing services for own consumption produced by owner occupiers in their capacity as un-incorporated enterprises, and (ii) domestic services produced by paid employees who are to be treated as independent un-incorporated enterprises serving households]. The 1993 SNA excludes all production of services for own final consumption except for paid domestic services and owner occupied housing on the grounds that:

(a) production of such services within households is a self-contained activity with limited repercussion on the rest of the economy;
(b) there are typically no prices that can be satisfactorily used to value such services and the estimated values would not be equivalent to monetary values for analytical or policy purpose; and
(c) if personal and domestic services by members of households for own final

Table 1: Number of Women, Percentage and Number of Married Women between 15 and 44 Years for 1971, 1981 and 1991

Items (1)	1971 (2)	1981 (3)	1991 (4)
No of women between 15-44 years, in crores	11.52	14.38	18.77
Percentage of married women between 15-44 years	83.90	80.48	75.49
No of married women between 15-44 years, in crores	9.68	11.55	14.17

Table 2: Earning Per Worker and Contribution of Women to Unpaid Household Work at 1980-81 Prices

Items (1)	1970-71 (2)	1980-81 (3)	1990-91 (4)
Earnings per worker (Rs)			
National average	4,610	4,959	6,601
Agriculture	2,978	2,882	3,224
Women's contribution to unpaid household work (Rs crore)			
National average	44,579	57,376	93,536
Agriculture	28,797	33,345	45,684

consumption are included, all persons engaged in such activities would become self-employed, making unemployment virtually impossible by definition.

With regard to own account production of goods by households, the 1993 SNA has removed the 1968 SNA limitations which excluded the production of goods not made from primary products, the processing of primary products by those who do not produce them and the production of other goods by households who do not sell any part of them on the market.

As indicated earlier all goods produced within the households, even though for own final consumption, are included within the production boundary of the system and if non-marketed, have to be evaluated at equivalent market price. These for example include:

(i) agricultural produce and their subsequent storage, gathering of uncultivated crops for own consumption, wood cutting, collection of firewood, hunting and fishing;
(ii) mining salt, cutting peat;
(iii) supply of water which is a kind of activity similar to extracting and piping of crude oil;
(iv) processing of agricultural products, production of dairy products (butter and cheese);
(v) production of baskets and mats;
(vi) weaving of cloth, tailoring, etc; and
(vii) production of footwear, production of pottery, utensils, making furniture and furnishings and all other productive activities of similar type.

In all these activities women are active participants. Production of all goods which are marketed is accounted for in the estimates of GDP through various sources of data including the Enterprise Surveys of the Economic Census. It is only the own account production for self-consumption which needs to be covered. Here, the own account consumption of the agricultural products whose output is estimated based on the cultivated area is included in the official estimates of National Accounts. For capturing the value added from other activities, however, suitable household sample surveys have to be conducted. It may be mentioned that in the existing National Sample Surveys (32nd, 38th and 43rd Rounds) we do get information (Appendix Table 3) on proportion of rural women engaged in household duties and also participating in specified activities for household use to total women engaged in household duties. If only we had a time disposition study and some information on the opportunity cost we could get the value added from the activities mentioned above, where the contribution of women is just getting missed for want of requisite data.

As mentioned earlier, personal services for own final consumption within the same household such as preparing meals, child care, house cleaning, transport and culture services (except for services produced by employing paid domestic staff) are excluded from the production boundary. The 1993 SNA does, however, suggest that in satellite accounts an alternate concept of GDP be elaborated which is based on an extended production boundary, including estimates for household production of services for own use. There are three possible ways to construct a satellite account – the net approach, the input approach and the output approach. The most commonly used perhaps being the net approach, which takes into account only of working time and its value. The difference between the net approach and the input approach is that the input approach covers intermediate consumption.

Valuation of Services of Housewives (Unpaid)

As mentioned earlier, the value of the household services is usually not included in the GDP. If one wishes to meaure household production it is necessary to calculate the economic value of the productive activity involved, but the difficulty with unpaid housework is that it has no market value in the form of wages. Many possible valuation methods have been proposed, which give differing results depending upon the wage figures used. In the literature three different methods are used to evaluate the value of household services. All of these require the information on the time put in by the housewives and the corresponding rate at which this time or it's proper parts are to be evaluated. Weekly person-hours may be converted to person-years (N). We need this N and an average annual rate of earning (E) for evaluation. Choice of E differentiates one method from the other for evaluating the household services. E is taken to be either the opportunity cost of the housewife or the cost of hiring a single individual to do all the household work (market substitute), or if N is split into its proper parts, for example, time devoted to cooking and preparation of meals, house cleaning, child care, elderly care, shopping, etc, say N, and each function is separately evaluated by the corresponding nearest market alternatives (E_i), thus instead of NE we have $\Sigma N_i E_i$ as the measure of the household services. The opportunity cost estimate has been arrived at in different ways in the literature by various authors. Nordhaus-Tobin (1972), for example, by and large, used the wages of female earners in manufacturing. In the Indian context, Mukherjee (1985b) has used two alternatives, namely, earning per worker (national average) and earning per worker in agriculture.

To estimate the value of the service of housewives (unpaid) for 1970-71 and 1980-81 we have used the information on the working force, etc, as given in Mukherjee (1985b). For 1991 Census, the number of main workers are available for nine industrial classifications for India excluding Jammu and Kashmir (J and K). The 1991 Census also provides the total population of India (including J and K). We have applied the ratio of main workers to the total population of J and K as obtaining in 1981 Census to arrive at the number of main workers in J and K in 1990-91. This number of main workers has then been assigned to nine industrial classifications of the main workers assuming the same participation rate as obtaining in 1981 Census for J and K. This then has been added to the number of main workers of India (excluding J and K) as contained in 1991 Census (Paper 2 of 1992) to arrive at the total number of main workers in India. We have not taken into account the number of marginal workers. The estimate of labour force thus arrived is, therefore, comparable with that of 1971 and also 1981 as given in Mukherjee (1985b). Number of women between 15-44 years and the percentage of married women between 15-44 years for 1971 and 1981 are taken from the census publications. For 1990-91 the number of women between 15-44 years have been taken from the Report of the Expert Committee on Population Projections (1987) which is 18.77 crores. For working out the percentage of married women between 15-44 years, in the absence of the information from census publication, we have used General Fertility rate 119.2 and General Marital Fertility rate 157.9 as available in Sample Registration System – Fertility and Mortality Indicators 1991. The percentage of married women in reproductive age group for 1991 is thus taken as 75.49. Using this information, number of married women between 15-44 years in 1991 comes out to be 14.17 crores. From Mukherjee (1985b), Census of India, 1981 and Sample Registration System, 1991 we get the figures for 1971, 1981 and 1991 (see Table 1).

We have used the estimates of NDP at 1980-81 prices which are available in the current series of the National Accounts Statistics (NAS). The estimate of gross value added in household industries for 1970-71 at current prices are available in Annex 6.4 – National Accounts Statistics – Sources and Methods, 1980. This gross value added has been converted to net value added assuming the same consumption of fixed capital ratio as obtaining in respect of un-registered manufacturing. The NDP thus arrived at for household industries for 1970-71 has been converted to 1980-81 prices by superimposing the price index of NDP of un-organised manufacturing as available in NAS-Disaggregated Statements, 1992 and NAS, 1995.

The working force and estimates of NDP at 1980-81 prices for the years 1970-71,

1980-81 and 1990-91 are given in Appendix Table 1. Using the figures of this table we get the average earnings in Rs per worker at 1980-81 prices. Using the average earnings per worker and the number of married women in the age group 15-44 years we can obtain the estimates of the women's contribution to un-paid household work at 1980-81 prices. These are presented in Table 2.

Women's Contribution to NDP and Extended NDP

Household services is largely the contribution of women. Apart from this, a part of NDP is also contributed by women. For obtaining the share of women in the NDP we have simply allocated the aggregate contributions to NDP by various industrial categories by gender in proportion to their share in the working force. It may be observed from Annex 1 that there is a systematic rise in the women's share in the working force in all industrial categories except for construction and other industries where it has gone down in 1991. The contribution of women in the NDP which was 14 per cent in 1970-71 has gone up to 16 per cent in 1980-81 and to 17 per cent in 1990-91 or from Rs 11,765 crore in 1970-71 to Rs 17,587 crore in 1980-81 and to Rs 32,537 crore in 1990-91 all expressed at 1980-81 prices.

In Appendix Table 2, we present estimates of extended NDP and contribution of Women in it which has been computed both when household work is evaluated at the rate of national average earnings per worker and at the rate of average agricultural earnings, at 1980-81 prices. It may be seen that women's share in the extended NDP goes to 33 per cent in 1990-91 which is much higher than their share in NDP at 17 per cent, when agricultural earnings rate are used to evaluate the unpaid household work. When we use the national average earnings per worker for evaluation of unpaid household work, women's share in the extended NDP goes to 44 per cent in 1990-91. There seems to be some fall in the women's share in the extended NDP in comparison to NDP during 1970-71 to 1990-91 when agricultural earnings per worker are used for evaluation. This is largely due to stagnancy of real agricultural earnings during 1970-71 to 1990-91. The slight increase in the women's participation rates in the working force has not brought about any appreciable improvements in their overall position.

These estimates of contribution of women could be improved if time-use-studies of the type Jain and Chand (1982) are available which enable us to quantify the amount of time devoted by women for the household services. The study of Jain and Chand (1982) conducted in the selected districts of West Bengal and Rajasthan reveals that about one-third of the women who reported as non-worker when standard questionnaire was addressed to them, were actually found to be spending few hours each day on productive activities when their time disposition was analysed.

Final Use of Extended NDP by Gender

After having considered the contribution of women in NDP/extended NDP it would be pertinent to consider their role in final consumption. No such study has been attempted in the Indian context so far. Subramanian and Deaton (1991) have examined the gender effects in the consumption pattern of the people of Maharashtra using the consumption expenditure data from the 38th Round of the National Sample Survey from Maharashtra State Sample. They have estimated a fairly flexible model of Engle curves including detailed demographic variables. It has been found by them that gender plays a role in consumption patterns. Basic foodstuffs, rice, wheat, other cereals, pulses, milk, meat, fruit and vegetables and sugar are either gender neutral or are consumed in larger quantities when there are more women in the household. For only two foodstuffs, non-alcoholic beverages and processed food, there is a gender bias indicating higher male consumption.

Estimates of private final consumption are available by object like food, clothing and footwear, furniture, appliances, etc. Some of these, for example, food, clothing and footwear, etc, can be taken to be consumed by individuals within households while others, for example, furniture, utensils, etc, are consumed by the household taken as a whole. Sex differentials can be applied only when an article can clearly be conceived as of need to a person. Consumption of other items can then be split up using the sex ratio in the population. As mentioned by Mukherjee (1985a) it would be difficult to apportion the consumption expenditure on items like gross rent, taxes, fuel and power by gender. The share of women in (i) education and cultural services, recreation and entertainment; (ii) transport and communications; and (iii) medical and health expenditure would be less than those of men. For food including beverages and tobacco the average per head intakes and hence the aggregates for almost all the items in this category are known to be lower for women than for men.

In the input-output framework, the GDP as final use of goods and services comprise private final consumption expenditure, government final consumption expenditure, gross capital formation and net exports. As argued by Mukherjee (1985a), current capital formation is intended for future final consumption, we need not split up capital formation by gender. In the extended NDP, there is some justification for applying to capital the same sex ratio which is worked out for the aggregate final consumption. For apportioning the government consumption expenditure by gender one can perhaps argue with two different approaches, one is that since the government does not discriminate by gender its activities of public ad-

Appendix Table 1. Working Force and Contribution to NDP by Gender at 1980-81 Prices, 1970-71, 1980-81, 1990-91

Industrial Sectors	Working Force in Million									Percentage Share of Women in Working Force			NDP at 1980-81 Prices (Rs crore)			Women's Contribution at 1980-81 Prices (Rs crore)		
	1971			1981			1991											
	M	W	T	M	W	T	M	W	T	70-71	80-81	90-91	70-71	80-81	90-91	70-71	80-81	90-91
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
Agriculture, etc	104.1	25.9	130.0	116.5	36.5	153.0	140.7	52.0	192.7	20	24	27	38711	44091	62127	7742	10582	16774
Mining and quarrying	0.8	0.1	0.9	1.1	0.2	1.3	1.5	0.3	1 8	11	15	17	1027	1474	2697	113	221	459
Household industries	5.0	1.4	6.4	5.6	2.1	7.7	4.7	2.2	6.9	22	27	32	1033	1536	2800	227	415	896
Other industries, etc	9.9	0.8	10.7	15.8	1.6	17.4	19.4	2 5	21.9	7	9	11	12297	18074	38747	861	1627	4262
Construction	2.0	0.2	2.2	3 2	0 4	3.6	5.1	0.4	5 5	9	11	7	4271	5771	9147	384	635	640
Transport and communication	9.5	0.5	10.0	13.0	0.9	13.9	7.8	0.2	8.0	5	7	3	1946	3724	7391	97	261	222
Trade, etc	4.3	0.1	4.4	5.9	0.2	6.1	19.9	1.4	21.3	2	3	7	9556	14322	25780	191	430	1805
Other services	13.5	2.3	15.8	16.4	3.2	19.6	24.7	5.4	30.1	15	16	18	14331	21348	41552	2150	3416	7479
Total	149.1	31.3	180.4	177 5	45.1	222.6	223.8	64.4	288.2	17	20	22	83172	110340	190241	11763	17587	32537
Total as percentages of total NDP																14.1	15.9	17.1

Note: M: Men; W: Women; T: Total.

ministration and defence, therefore, GFCE needs to be apportioned by sex ratios, i e, equally. Alternatively GFCE need, to be apportioned proportionately taking individual sub-activities of the government and the proportion to beneficiaries therein. For example, the expenditure on education may have to be divided by the enrolment of male/female students, expenditure on health may have to be divided in proportion to the male/female beneficiaries, the expenditure on law and order and prison may have to be divided in proportion to the inmates, where males are likely to be more in number, etc.

Conclusions

It has been brought out in this paper that the 1993 SNA is flexible. It does provide a room in the form of a satellite account where the contribution of housewives are considered in totality by extending the production boundary, i e, as extended GDP. The satellite account in the framework of 1993 SNA also permits treatment of the issues like environment accounting. The damage to the environment which is caused in the course of the production process in the name of economic development is taken as cost to derive the green GDP which will certainly be much less than the conventional GDP. Women's share in the NDP has progressively risen from 14.1 per cent in 1970-71 to 17.1 per cent in 1990-91. This share really should have been little more had we captured the activities of the household production of goods for self-consumption where women predominantly engage themselves in the production of goods. In the concept of Extended GDP where women's contribution in the form of housewives' services are included, the women's contribution in the extended NDP has been seen to be significantly higher than that in the NDP conventionally defined in the SNA. The limitation in our computation of women's contribution in the extended NDP is that we have taken a uniform wage rate in the absence of the information on opportunity costs. In fact, for such exercises what is needed is a combination of results of ongoing large-scale sample surveys and studies on Time Disposition particularly in respect of females. In the estimation of GDP through production approach in a situation where activities of women have been fully taken account of, apportionment of GDP by gender is not possible. However, it is possible to apportion the GDP by gender when it is estimated through income approach. Using income approach the apportionment of the domestic product by gender has been made under certain assumptions. What is left is apportionment of GDP by gender when it is estimated by expenditure approach. It would be worthwhile to attempt the apportionment by gender in the final expenditure aggregate such as PFCE, GFCE and GFCF. The requirement of data and further thinking is required to carry out this study. Such studies neverthless need to be attempted.

[Views expressed in the paper are of the authors and not necessarily of the organisation to which they belong.]

Appendix Table 2: Extended NDP and Women's Contribution in It at 1980-81 Prices

(Rs in crore)

Items (1)	1970-71 (2)	1980-81 (3)	1990-91 (4)
At National Average			
Men's contribution	83172-11765=71407 (56)	110340-17587=92753 (55)	190241-32537=157704 (56)
Women's contribution	44579+11765=56344 (44)	57376+17587=74963 (45)	93536+32537=126073 (44)
Extended NDP	127751 (100)	167716 (100)	283777 (100)
Women's contribution as percentage of NDP	67.7	67.9	66.3
At Average Agricultural Earning			
Men's contribution	83172-11765=71407 (64)	110340-17587=92753 (65)	190241-32537=157704 (67)
Women's contribution	28797+11765=40562 (36)	33345+17587=50932 (35)	45684+32537=78221 (33)
Extended NDP	111969 (100)	143685 (100)	235925 (100)
Women's contribution as percentage of NDP	48.8	46.2	41.1

Appendix Table 3: Proportion of Rural Women Engaged in Household Duties and Also Participating in Specified Activities for Household Use to Total Women Engaged in Household Activities

Specified Activities	NSS 32nd Round	NSS 38th Round	NSS 43rd Round
Maintenance of kitchen garden, etc	11.7	14.4	16.3
Work in household poultry, etc	27.5	14.5	33.0
Work in household dairy, etc	—	31.8	—
Free collection of fish, etc	15.5	24.1	21.2
Free collection of firewood	35.7	43.5	40.5
Husking of paddy (own produce)	—	27.6	17.8
Grinding of food grains (own produce)	—	38.2	17.5
Preparation of gur (own produce)	—	2.2	0.9
Preservation of meat, etc (own produce)	—	—	0.7
Making basket, etc (own produce)	—	—	2.5
Making basket, etc (acquired)	—	—	6.7
Preparation of cow dung cakes	—	49.9	51.9
Sewing, tailoring, etc	9.3	17.4	19.5
Tutoring own children	1.2	3.4	3.6
Bringing water from outside household premises	—	63.3	60.8
Bringing water from outside village	3.0	3.3	3.0

Source: NSS Reports.

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Domestic Prices and World Prices

Murali Patibandla

PRABHAT PATNAIK (1996) uses the neo-classical trade model of price-taking small country assumption to show how protection of the manufacturing sector will be welfare superior to free trade, contrary to the free trade policy implications of the neo-classicalists. My answer to this paper is "let domestic prices be equated to (or approach) world prices in the present". I derive my arguments by contending some of the special assumptions made by Patnaik in his model and also by showing how the protection of the organised manufacturing sector in practice has been counter to Patnaik's idea of increasing output, employment and surplus for government investment through import protection. I do not contend the infant industry argument for import protection but question the validity of arguing for import protection of the organised manufactured sector in the present juncture.

Patnaik derives his theoretical results by relaxing the assumption of full employment of the neoclassical model and by taking a single factor of production, i e, labour, in the production function. In the standard neoclassical model, under the assumption of full employment and competitive markets, protection of the import competing manufacturing sector (M) leads to its expansion at the cost of the exporting agricultural sector (A), given the input endowments. This causes an increase in the domestic price of M and the producers' surplus of this sector and a net redistribution of income from the consumers of M and also producers of sector A in favour of producers of sector M and government in the form of tariff revenue. It reduces real incomes (commodity bundles) by causing allocative inefficiency in production. Patnaik avoids the contractionary result of import protection by assuming presence of surplus labour and introducing only labour (L) as a factor of production in the production function of the M sector. Import protection of the M sector leads to expansion of its output under the assumption of perfect competition. Since there is surplus labour and L is the only input in the production function, expansion of the M sector will not be at the cost of sector A. As employment increases, domestic consumption of food by the additional labour employed (food availability) increases. Decline in the exports of the sector A is offset by decline in the imports of manufactured goods which retains the balance of trade.

Patnaik's assumption of surplus labour is very justified in the Indian context. My contention is regarding the specification of the production function which incorporates only one input, L. If we go by Heckscher and Ohlin trade theory, there are two inputs, L and capital (K). Sector M is capital-intensive and sector A is labour-intensive. In the labour abundant and capital scarce Indian economy, capital can be taken to be fully employed and there is surplus labour. Expansion of M's output requires more capital than labour. Import protection of M draws capital (and also producer surplus) away from agriculture. If both K and L are required to produce A's good, it leads to contraction of the sector A especially when one assumes fixed coefficients of inputs in production. Contraction of output of A releases more labour than capital as it is a labour-intensive good. Adjustment of employment through decline in wages is not relevant in the present context as we start with surplus labour and labour is paid subsistence wage. As capital-intensive manufacturing sector does not absorb all of the additional surplus labour, import protection of the M sector leads to worsening of unemployment instead of increasing employment as in Patnaik's model.

Furthermore, the neoclassical assumption of perfect competition in the manufacturing sector, which Patnaik does not question in this paper, might not be valid for several Indian industries especially in the present context. The organised manufacturing sector is collusively oligopolistic. In such a case, import protection instead of expanding output of M will lead to contraction in output if domestic oligopoly firms exercise domestic market power and reduce output in order to keep domestic price high [Patibandla 1996].

Let us divide the economy into three sectors: import competing capital-intensive organised manufacturing sector, exporting labour-intensive unorganised manufacturing sector (for example, cut and polished diamonds, leather goods, handicrafts, etc), and labour-intensive agriculture as before. The protectionist policies pursued in India made macro-economic policies (including the overvalued exchange rate policies) systematically biased in favour of the capital intensive organised manufacturing sector at the cost of the labour-intensive exporting sectors. This might have worsened the unemployment problem. For the period 1970 to 1990, employment in the organised private manufacturing sector grew at an annual rate of 0.68 per cent only while employment in the unorganised small-scale increased at a very rapid rate [Patibandla 1993]. This is despite the macro policy bias against the latter. The recent correction of the exchange rate led to increase in exports of this sector. Since it is labour-intensive, there is a further spurt in employment generation in this sector through increased exports. In other words, the agriculture and unorganised manufacturing sectors appear to respond a lot more positively to price incentives given to them by expanding output and employment than the organised manufacturing sector.[1] One reason for this could be that the market structure of these sectors is more competitive (with a large number of producers) that that of the organised sector. As mentioned before, the incentive given to the organised sector through import protection may facilitate monopoly behaviour in terms of reducing domestic supply and increasing price. In other words, the incentives given to this sector through import protection and other benefits are more of a source of long run monopoly power rather than Patnaik's exposition of output and employment expansion.

Patnaik shows a growth process in his model by making government draw a part the surplus[2] of the M sector (the profit income) in the form of import tariff revenue. This facilitates government investment and capital formation and consequent growth. But if one observes the experience during the last 45 years of protectionist policies, it appears that a major part of surplus for government investment appears to have come mostly from the unorganised manufacturing and agricultural sectors which employ a major section of the poor, instead of the protected sector Major part of government expenditure is drawn from its revenue through highly regressive indirect taxes and deficit financing. Government investment through deficit financing, if it causes inflation, makes the poor take the major part of the burden. Therefore, the burden of government expenditure might have been borne mostly by the poor but not by the organised manufacturing sector. The overvalued exchange rate suppressed agricultural prices and also other exportable goods' prices which implies that these sectors subsidised the urban consumption. In other words, agricultural sector and government expenditure made feasible by indirect taxes and deficit financing might have kept subsidising the organised manufacturing sector.

The sad side of the story is that the Indian corporate sector has been observed to be zero tax paying and about 100 billion dollars worth of capital has been siphoned off abroad. Who has paid for the surplus for government investment in the Indian economy and who has benefited from it? In the present juncture, the Indian organised manufacturing sector does not deserve high protection from imports at the cost of the exporting labour-intensive sectors It is important in the present juncture that the policy should use world market price signals to discipline domestic oligopolistic producers instead of sending them a policy signal of indefinite protection [Patibandla 1996]. In the immediate short run, free trade policies will hurt the poor more by changing the relative prices of agricultural and manufactured goods: manufactured goods prices will go down and prices of exporting sectors go up. Increase in employment and real wages in the labour-intensive exporting sectors may take a little longer time. Food security should come through an effective and targeted public distribution system.

There is no doubt about the importance of government investment expenditure (as against consumption expenditure) for achieving economic growth. It is very difficult to see that the surplus for government investment can be generated by protecting the myopic domestic oligopoly agents especially after subsidising them for 50 years and not realising any significant growth benefits. The undying faith of leftist economists in the benevolence (common good) of government policy intervention is as skewed as the market fundamentalism of a section of free marketeers. I would rather go by the assessment of the Indian state as a cluster of organised vested interest groups whose primary objective has been nothing but division of the economic pie. The market reforms, provided they are properly done[3] should shake us up and free us from this trap in the long run.

Notes

1 For example, the response of the agriculture sector to the price incentives under green revolution is commendable.

2 Which has to be the profit income of M as labour is paid subsistence wage: the demand for M goods has to come from profit income. He talks of profit income in this part of the paper wich implies two inputs – capital (owners) and labour – in the produc-tion function.

3 This statement of 'market reforms if properly done' requires discussion of larger issues which are beyond the scope of this note.

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TBAs: Not Irrelevant

Shanti Ghosh

THIS is with reference to Molly Chattopadhyay's article on traditional birth attendants (TBAs) of south Bihar (*EPW*, July 13). To begin with let it be emphasised that TBAs are by no means endangered professionals. The author has rightly emphasised the role the TBAs play in assisting at birth of the baby, when no other health professional or health facility is available and has highlighted the unscientific and unhygienic methods the TBAs employ which can result in death of the mother and/or of the baby. The herbs used for preventing pregnancy are obviously without effect, and might even produce some unwelcome side-effects. Besides some of the women using them may resort to illegal abortion with disastrous results. The villagers have necessarily to depend on these untrained TBAs as no trained health professionals or health facilities are available nearby. There is of course the advantage of a good patron-client relationship and empathy which TBAs enjoy and which unfortunately health professionals often lack.

Maternal mortality in India is above 400 per 1,00,000 births and in the scenario described by the author, it must be much higher. Newborn mortality too is high and a sizeable proportion of this is due to asphyxia (failure to breath immediately after birth). Proper management during the few minutes in which the baby traverses the birth canal are crucial to the baby's survival and well-being, and so every effort has to be made to ensure that pregnancy is normal and that there is no likelihood of any complication during delivery. With this in view, some contact with a health professional (usually the auxiliary nurse midwife) are recommended. While eventually the aim is to encourage institutional deliveries as is happening in Kerala and Tamil Nadu, this is a far cry for most of our rural areas at present, partly because of lack of adequate and suitable health facilities and partly because of the traditional beliefs regarding delivery. According to SRS 1992, only 24 per cent deliveries were institutional, while 76 per cent were home deliveries. Of these only 23 per cent were conducted by trained personnel (TBA, ANM or a doctor) and 53 per cent were conducted by untrained personnel – untrained TBAs, family members or neighbours.

TBAs are being trained for years, and by now the countryside should have been saturated with these trained TBAs. Unfortunately usually the women who are the real TBAs or are planning to become TBAs of the future, do not take advantage of the training and instead many others come forward for training because of the small stipend attached to it. Now under the reproductive and child health programme, the training programme is being strengthened and it is proposed to train 2,00,000 TBAs during 1996-97. There is certainly no likelihood that the TBAs will become useless, irrelevant and obsolete as Molly Chattopadhyay fears.

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Missing Girl Children

Juvenile sex ratio variations across the country reveal significant differences in sex ratio patterns among three major social groups – the tribals, the scheduled castes and the rest of the population. Geophysical regions, it turns out, are more relevant than the states as units for analysis of spatial variations in sex ratios. Certain regions, cutting across state boundaries, stand out for their alarmingly low female to male children ratios. The observed patterns raise important questions about the design of women and child welfare programmes and indicate the need for plurality in their design and for area and group specific interventions. 3369

Flexible Specialisation

The debate about flexible specialisation, developed in the context of the advanced countries as an alternative to the mass production paradigm, is no longer limited to the rich industrialised countries. It is also about whether flexible specialisation offers a way forward for industrialisation in the developing countries. L-57

Though no industrial cluster in the world can live up to the flexible specialisation model, it does generate ideas useful for exploring possible roads ahead for low-tech, craft-based clusters in countries such as India. Some findings from the hand-made footwear industry in Agra. L-50

Wrong Capitalist Model

The poor economic performance and the resulting political instability of the post-socialist countries have stemmed from copying, voluntarily or otherwise, the wrong capitalist model. Until they learn from both their own past and the experience of successful late-industrialisers and piece together sensible policies specifically geared to their current status, their efforts to restructure and make the transition to a market economy will continue to sputter. 3383

Class Re-formation

The labour movement which had made an impact on the character of the Mumbai working class in the past is losing much of its capacity to influence class formation at the level of consciousness and struggle. While circumstances have changed, the trade unions are apparently reluctant to recognise the limitations of past achievements and to relate to the new Mumbai working class. L-34

Enemy Within

While the charge of 'Indian' exploitation of Assam can be sustained without much difficulty, such exploitation would be impossible without true-blue Assamese leaders co-operating heartily in return for a share of the loot. 3347

Extra-Territorial Lobbies

Why should the government finance extra-territorial lobbies set up in the wake of the economic liberalisation in 1991 ostensibly to promote bilateral economic co-operation at the 'non-official' level but which actually advance the interests of foreign governments and transnationals? 3350

State and Trade Unions

The state's interventions in regulating industrial relations have by and large dampened independent workers' initiatives and encouraged the fissures which have been the bane of the working class movement since independence. L-39

Alternative Movement?

Are independent trade unions, whose growth reflects the failure of the political unions to meet workers' needs, capable of emerging as an alternative movement? The West Bengal scene. L-44

Less Mobile

The burden of absorbing the growing labour force productively in the economy has become more difficult in recent years with the fall in the rate of out-migration from the backward states. 3391

No China Policy Still

The lack of a coherent, long-term China policy was exposed by the almost exclusive focus, in our response to Chinese president Jiang Zemin's visit, on the power equation and on China-Pakistan collaboration. 3356

Trade Unions and Internal Democracy

I AM delighted that my short article 'Defining Union Work' (July 27) has provoked two responses, one from Blue Star Workers' Union (BSWU) and another from TUSC, Bombay (September 28). However, it is unfortunate that both the responses have missed the spirit of the article.

The respoonses confine themselves to the tentative and brief suggestion in my article, almost an aside, that if there were greater internal democracy in unions and if there were more established norms and practices regarding time-off during official working hours for office-bearers of a union and other union activists then perhaps it would be more difficult for managements to label certain established practices and rights gained by the union through struggles as 'concessions' granted by them to the activists, to be unilaterally withdrawn at their discretion without their being charged with 'unfair labour practices'. Surprisingly, both responses have first interpreted this mere suggestion as an explicit accusation by me against Vasudevan of BSWU and then proceeded to categorically refute it. Let me straightaway clarify that I had (have) no wish to dilute Vasudevan's contribution either to BSWU or the trade union movement in general. Indeed, I didn't even visualise such an interpretation of my suggestion. But let me elaborate, hopefully with greater clarity, what I was trying to suggest in my article.

Too often in an organisation like a trade union, in the absence of larger, democratic structures, norms and practices, a dedicated, small group of union activists tends to commit itself to the difficult task of unionising workers at the shop-floor and aligning with the larger trade union movement, even at the risk of personal sacrifice and almost the total absence of any social/personal life outside the union/movement. However, the conscious commitment and involvement of these activists, over time, not infrequently tends to get unconsciously translated into the practice of entrusting the same experienced activists with more and more tasks, especially when the union is under constant, systematic assault by the management. It is perceived 'too risky' by the union to delegate tasks to other, not-so-experienced activists. In the process, a certain demarcation tends to set in between activists and other union members. Sometimes, the demarcation gets blurred with the 'alienation' of a large number of union members/workers from the leadership/activists. It is not my intention to suggest that the small, dedicated group is guilty of consciously excluding others. Instead, I merely wish to point out how the dynamics of such processes may, unwittingly, be detrimental to the hard-won rights of the union and its activists in its confrontation with the management.

Thus, in the context of a trade union, where there is an increasing need to actively involve all workers in the functioning and decisionmaking processes in the union, there is an urgent need to consciously, deliberately and insistently ensure that any demarcation bet-ween activists and other members does not set in; to ensure that no small group of activists, however dedicated, becomes the personalised symbol of the union itself. There is, then, also the need to ensure that no office-bearer of the union becomes so identified with the union that s/he becomes indispens-able to the functioning of the union These risks – if they may be so labelled – need to be taken by union to ensure that active and ongoing democratic participation, as against formal, democratic rituals, of the ordinary workers in the union gets established in practice.

Besides, let me forward another suggestion worth probing into. Maybe, the union should evolve norms where union activists are paid by the union itself out of its own funds for the duration for which they work for the union and not in the company, as is the practice in almost all large, established national unions in the US, for example. This may not only strengthen links between activists and ordinary union members, it may also lead to greater democratic participation by workers in the functioning of the union and may perhaps bring about greater commitment and concern for the union with greater continuous involvement. It is also likely to lead to more direct accountability of the activists towards ordinary workers in the union. These apart, my article, I repeat, was quite categorical in its assessment of the Bombay High Court judgment in Vasudevan's case as being clearly anti-union rights. In fact, a fair part of my article was devoted to suggesting how this is in tune with the growing hostility towards organised labour in the present times in the emerging context of the political economy of liberalisation, privatisation and globalisation in India.

Finally, let me also take this opportunity to revise another unintended impression given by my article. I seem to have suggested in the article that managements learn to co-operate with unions because they find the unions contributing towards the functioning of the enterprise. Else, managements would never co-operate with unions, recognise them. Unfortunately, this choice of words does not adequately or accurately reflect what I was trying to argue. Therefore, let me restate my position.

No management worth its salt would recognise a union and negotiate with it if it can get away without doing so. The simple basic fact is that the recognition of the union of workers by the management is almost always perceived by the management as a hostile infringement of its rights and powers over how to manage the enterprise. The more uncompromising, militant and strong the union, the greater is the extent of perceived and real infringement of managerial rights and prerogatives over its workforce by the union. The management, then, is forced to negotiate with the union, always temporarily as a tactic, only to the extent the union is able to assert its hold over workers and represent their interests and aspirations. The conflict between the management and the union in an enterprise is direct and continuous. On the shop-floor, there is an ongoing tug-of-war between managers and workers. Therefore, the management is always on the lookout to evolve, experiment with and devise different ways to weaken the effective social and formal power of the union. Confronted with such a scenario, unions also need to continuously and systematically widen and deepen their links with the ordinary workers. I wish to suggest that more internal democracy in a union greatly strengthens such bonds among workers in a union at all levels and provides a wider base from which to fight against the management.

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ECONOMIC AND POLITICAL WEEKLY

Corporate Slump

THE government's economic reforms have set themselves the objective of enlarging the space available to the private corporate sector in the country's industrial development. Prior to the reforms, initiated in July 1991, the corporate sector was thought to be held back by a mesh of controls and regulations, though in fact the more serious constraints stemmed from institutional and structural factors to do with the narrowness of the domestic market and the character of the entrepreneurial class itself, distinguished by its inclination towards trading rather than manufacturing, its dependence on foreign know-how and brand names and its inability to mobilise large enough investible resources, including corporate savings. While economic liberalisation has eliminated a good part of the regulatory constraints, it has by and large failed to address the structural and institutional limitations. In fact it may have contributed to their accentuation. If, for instance, the widening of the domestic market is a necessary condition for triggering off a cumulative process of capital accumulation, output growth and improved profitability of industry and agriculture alike, this condition can be satisfied only if the development process is egalitarian, whereas the reforms have, if anything, created a socio-economic environment conducive to a sharp aggravation of inequalities. The mercantile and dependent character of entrepreneurship has likewise come to the fore more pronouncedly in the post-reform period.

Under the impulse of the stabilisation policies of monetary restraint, reduction of the fiscal deficit and contraction of the growth of public expenditure together with the sharp devaluation of the rupee, the first three years of the reforms from 1991-92 to 1993-94 saw moderate sales growth and fixed assets formation and also generally low profitability ratios in the private corporate sector. In this period the rate of industrial growth had dipped as low as 0.6 per cent in 1991-92, 2.3 per cent in 1992-93 and 6 per cent in 1993-94 against an average of 8.5 per cent per annum in the 1980s. The next two years saw a pick up in industrial growth to 9.4 per cent in 1994-95 and 11.8 per cent in 1995-96 – which was also reflected in buoyant corporate performance. Sales growth and fixed assets formation accelerated and corporate profitability and savings improved quite markedly.

As per the latest IDBI study of 520 sample companies assisted by it, annual sales growth picked up from 16-18 per cent in 1992-93 and 1993-94 to about 25 per cent in 1994-95 and 1995-96. Annual gross fixed assets formation rose from about 23 per cent in the first two years to 26-27 per cent in the next two years. Gross profit (after depreciation) as a percentage of sales, which stood at around 14 per cent during 1991-92 to 1993-94, rose to a little over 16 per cent in the next two years. An ICICI study of 675 public limited companies in the private sector assisted by it shows similar trends. Net sales growth was 26-27 per cent per annum in 1994-95 and 1995-96 compared with 16-19 per cent in the preceding two years. Gross fixed assets formation was 27-28 per cent in the latest two years against 23-24 per cent in the previous two years. As the inflation rate and the rise in the prices of investment goods were higher in the initial years of the reforms, in real terms the rise in sales and gross fixed assets formation was higher still in 1994-95 and 1995-96. The ICICI study also shows an improved return on sales in these two years. The regular company finance studies by the RBI are unfortunately available only up to 1991-92, but its analyses of the unaudited balance sheets of 1,191 non-financial companies show that while these companies' sales turnover grew by 29.9 per cent in 1994-95 and 25.9 per cent in 1995-96, their gross profits to sales ratio improved from a little over 13 per cent in 1993-94 to nearly 14 per cent in the next two years. While the profitability of the larger sample of companies is understandably more moderate, that the private corporate sector registered an impressive performance in 1994-95 and 1995-96 compared with the first three years of the reforms is borne out by the RBI figures as well.

The supporters of the reforms had seen in the accelerated growth of the private corporate sector evidence that a process of sustained industrial growth had begun. But, typical of the fluctuating fortunes of the Indian private corporate sector conditioned by a variety of macro-economic and behavioural constraints, there has been a slump in its performance in 1996-97. Industrial growth has begun to slow down and so has the growth of exports; and inventory accumulation is being reported in a large number of industries. This is also reflected in the operations of the financial system. Bank credit expansion and the rise in the sanctions and disbursements of the term-financing institutions have been low. The primary as well as secondary segments of the capital market are in doldrums. These discouraging macro-economic trends are reflected in the working of the private corporate sector. According to the balance sheet consolidation for 1,000 companies by *Business Standard*, sales growth dipped to 16.4 per cent in the first half 1996-97, while the gross profits to sales ratio has come down from 13.5 per cent in the first half of 1995-96 to 12.3 per cent in the first half of 1996-97. A CMIE study of 1,187 non-finance companies similarly shows depressed sales growth of 15.9 per cent during April-September 1996 which is close to half the 27.5 per cent growth achieved in the first half of 1995-96 and much lower than the growth of 23-25 per cent recorded in the previous two full fiscal years. Profit before depreciation, interest and tax increased by 11.4 per cent in the first half of 1996-97 against increases of over 27 per cent in the corresponding period of the previous year as well as in each of the previous two fiscal years. What is more, with the likely

sharp increases in interest expenditure and also some rise in taxation due to the minimum alternate tax (MAT), the performance in the 1996-97 as a whole is expected to be even more colourless.

The long-term factors responsible for the slump in the performance of the corporate sector are to be found in the structural features of the Indian economy as well as the character of the Indian entrepreneurial class referred to earlier. The sharp cut in public expenditure in real terms, the inadequacy of domestic saving and the steep increases in interest cost as a consequence of financial sector liberalisation have been the immediate causes of the slow down in industrial activity with consequential adverse impact on the private corporate sector's investment, output and profitability. The argument that the MAT has been responsible for the corporate sector slow down is a spurious one. In the first place, the slackening of corporate sector growth began in the second half of 1995-96, much before the introduction of the MAT. Second, the rise in interest cost had begun in 1995-96 when it rose by 30.3 per cent against increases of 4 to 6 per cent in the previous two years. Thirdly, the MAT on zero tax companies was imposed after the corporate sector had been gifted enormous tax breaks, with the incidence of corporate taxation coming down from 29.4 per cent of profit before tax in 1991-92 to 15.1 per cent in 1995-96 for the IDBI sample companies and from 28.5 per cent to 17.7 per cent of operating profits for the ICICI sample.

The industrial boom of 1994-95 and 1995-96 generated by massive capital inflows from abroad, buoyancy of export-import trade, an upsurge in demand for automobiles and consumer durables and some increase in demand for basic and capital goods, essentially by way of recoupment of ground lost in the first three years of the reforms, could not have been kept up without a significant widening of the demand base of the economy and rise in the domestic saving ratio to underwrite expansion of domestic investment on a sustainable basis. The attempts of the government and the business community to substitute foreign capital and export markets cannot succeed in the long term. The general profile of as many as 9,635 foreign technical and investment collaboration approvals involving investment of Rs 81,860 crore up to the end of August 1996 suggests that they are neither in high technology areas nor do they focus on the export market. A number of infrastructure projects are bogged down by environmental and other procedural infirmities. And given the government's anxious quest for foreign capital on a massive scale, private entrepreneurs entering into joint ventures would appear to have not bargained hard enough with their foreign collaborators to secure reasonable agreements in terms of transfer of technology or using India as a production base for the world market.

The adverse implications of the reforms for the balance of payments is brought out by the export-import data for the private corporate sector, which are available only for the IDBI-assisted companies. Exports of the 384 companies constituted 8.5 per cent of sales in 1991-92 and the ratio jumped to 10.1 per cent in 1992-93 and remained at 10.5 per cent in 1993-94, 10.8 per cent in 1994-95 and 10.6 per cent in 1995-96. The one-time increase in the export ratio is almost entirely explained by the depreciation of the rupee. In US dollar terms, the rupee depreciated by more than 37 per cent between 1991-92 and 1995-96 (by more 25 per cent in 1992-93 alone) and in nominal trade-weighted terms by about 30 per cent. The large public limited companies which comprise the IDBI study have thus shown little increase in the share of exports in sales in real terms. However, while they have shown no advance in export penetration, their import-intensity appears to have gone up quite significantly. The share of imports in total raw materials consumed shot up from 10.8 per cent 1991-92 to 17.9 per cent in 1995-96. Apart from the rise in imports, what stands out is the sharp increase in overall foreign exchange outgo. While foreign exchange earnings increased by 185 per cent from Rs 5,442 crore in 1991-92 to Rs 15,502 crore in 1995-96, foreign exchange outgo went up by 280 per cent from Rs 7,301 crore to Rs 27,741 crore. As a result, the net foreign exchange outgo which was Rs 1,858 crore ($ 760 mn) in 1991-92 rose to Rs 12,239 crore ($ 3,660 mn) in 1995-96. These numbers suggest the chilling implications of our private corporate sector's response to the so-called globalisation of the economy.

PEOPLE'S SCIENCE

Defunct Project?

SOMETIME in the mid-1960s when the pursuit of science still carried prestige in India and when technological endeavour was regarded as vital building blocks for developing societies, loose groups of disenchanted scientists, a significant number from the left movement, began a process which in course of time emerged as the people's science movement. And like so many developments in history, this attempt to recapture or reclaim science for the people emerged independently in several parts of the country (as in fact it did in the US, UK and Europe). The best known and arguably the earliest of these is the Kerala Sastra Sahitya Parishad (KSSP) which celebrated 30 years of existence last week. By the end of the 1970s there was a growing, if thin, layer of people's science activists all over the country. The first people's science movement conference organised by the KSSP drew participants from diverse places – science clubs in West Bengal and Orissa, the Lok Vignyan Sanghatana in Maharashtra, science groups in Tamil Nadu, experiments like Kishore Bharti in Madhya Pradesh and the Medico Friend Circle.

By and large these groups were motivated by a Bernalist perception of science – as a body of progressive knowledge which had powered the development of capitalism which now needed to be harnessed to the coming revolution of the masses. The distortions and the anti-people developments in the application of science which had occurred in the course of the pursuit of science within the capitalist project were largely consequences of the misapplication of science and technology, so went the argument. The answer was to apply science and technology for the social good, empower people with scientific knowledge, revitalise indigenous pre-scientific knowledge whose full development had been suppressed because of the import of a sort of premature capitalism under colonial rule. There were many variants of this understanding of science and technology, but few by and large questioned the nature of science. The woman question in science, for instance, was raised not within the people's science movement but in the woman's movement. While it is irrelevant at this point of time to determine what issues were first taken up by whom within the broad range of progressive movements which were gathering force in the late 1970s, this is illustrative of the fact that the people's science movement by and large ignored, often vehemently opposed, the raising of fundamental questions on the nature of science. This blind, and as it turned out unfortunate, faith in science led to distortions which strongly influenced the future course of the movement. For instance, by and large it was assumed that what was defined as decadent cultural practices and blind beliefs could be shed by an emphatic adoption of the methods of science, by applying the scientific rationale. Willy-nilly, the cultural, social, political and economic roots of so-called unscientific social practices became a secondary issue. This view of science and its importance to progressive social development coincided remarkably well with the Nehruvian, nationalist project of inculcating the 'scientific temper' among the people.

Equally true, however, is it that groups like the KSSP which truly became a movement in Kerala were instrumental in putting forth a radically different view of the creation of scientific knowledge and locating the centrality of labour in the endeavour. It used local cultural forms and idioms to project science as a collective endeavour. It also raised, for the first time perhaps, environmental issues and brought to the public platform the debate on whether the people's good was served by mammoth hydroelectric projects while destroying for ever ecological niches. By the 1980s, however, the need to put people's science on a national agenda – 'mainstreaming' – led to an emphatic focus on popularising science, the inculcating of an amorphously defined 'scientific temper' and inevitably the projecting of science as a magic wand.

People's science thus became a parallel development, a state-sponsored project. And away from public scrutiny, and therefore a non-issue for the state, scientific research has become an irrelevant empire. Interestingly, the people's science movement has spawned other formations focussing on specific areas – for instance, the environment and the drug consumer movements which have challenged, often successfully, industry and the state. And yet the revival of the original impetus of a broad-based people's science movement, to reclaim science for the people, is imperative today. In the absence of a legitimate, well-developed critique of the 'science for development' project, public resources, in funds and even more in physical resources and talented human power created with state funding, are tending to be used for programmes irrelevant to the large mass of the people.

TRADE AND LABOUR

Alternative Social Clause

THE government, business interests as well as trade union circles in India appear to be happy that India had been successful in resisting the linkage of trade with labour standards at the recently concluded WTO meeting in Singapore.

We should certainly be conscious of the dangerous use that can be made of the so-called social clause (making trade dependent on labour standards) by the US and the European Community, which are proposing it from sheer protectionist motives. But the selfish interests of these western promoters of social clause do not invalidate the need for introduction of rules into international trading that will guarantee respect of the fundamental rights of men, women and children in the working place. A social clause as a regulatory instrument is all the more necessary in the developing countries to protect workers and guard them against excesses that might flow from liberalisation and world competition. As it is, no one can deny that in India the industrial climate is marked by ruthless exploitation of cheap labour (including women and children) in the unorganised sector and unhygienic and hazardous working conditions in a large part of the organised sector. With the deregulation of the economy and further liberalisation, the rat race for profits among industrialists is likely to lead to increasing exploitation of the workforce at the cost of the latter's health and trade union rights. An instrument like a social clause in international trade is therefore necessary to protect the interests of the working class, and should not be dismissed as a 'threat to national sovereignty'.

The Indian position, shared by many other third world governments, is that the question of labour standards is extraneous to international trade and that the proper world forum to address the issue is the ILO. India succeeded in Singapore in getting the WTO to endorse this position. The Singapore declaration says: "ILO is the competent body to set and deal with these standards, and we affirm our support for its work in promoting them." All this is fine. But then, let us remember that even the ILO has not totally delinked labour standards (followed by member-states in their respective countries) from the need for conforming to certain basic universally accepted norms. In the preamble to its constitution (1919), the ILO stated: "The non-adoption by any nation of a really humane labour regime creates an obstacle to the efforts of other countries wishing to improve the lot of workers in their own countries." Still later, in 1948, the Charter of Havana (which has never been ratified) was more specific in linking labour standards with international trade: "The states recognise that inequitable conditions of labour, particularly in the production of goods destined for export, creates difficulties in international trade. As a consequence, each state will take all the measures appropriate and realisable in order to eliminate such conditions on its territory."

The idea of the social clause is therefore not new, and can be made use of in a positive direction by trade unions in developing countries. In opposition to the protectionist orientation of the social clause as defined by the US and the European Community in the WTO, trade unions and working class organisations can redefine social clause based on alternative and universally applicable minimum standards such as abolition of forced labour, minimum age of eligibility for employment, right to organise and collective bargaining, equal remuneration for work of equal value, etc. Incidentally, these standards are incorporated in several ILO conventions that have also been ratified by states. One therefore rightfully expects the governments of these countries to respect them, whatever their level of development. 'National sovereignty' cannot be made an excuse for violating labour rights or giving a blanket approval to industrial units to indulge in unfair trade practices within the country.

The trade union organisations in the developing countries in their attempts to formulate an alternative social clause can further insist on compensatory and accompanying measures (e g, financial and technological transfers from the richer to the poorer nations) within WTO to help them conform to the minimum labour standards. Child labour in the developing countries, for instance, cannot be combated without developing educational facilities and ensuring the parents of the working children sufficient income.

A move in the direction of an alternative social clause for integrating labour standards with trade relations in the interests of the working class – as opposed to the protectionist interests of the US and the European Community – has already been launched by a group of Swiss trade unions and organisations involved in environmental, human rights and women's issues. Indian trade unions can contribute to these efforts, instead of rejecting the concept of social clause as a part of international trade relations.

BIHAR

Covering Up Corruption

THE series of scams that have unfolded in Bihar in the past one year has exposed a mafia-like nexus of government officials, contractors and politicians which has been looting the state exchequer for two decades through fraudulent means. More than Rs 2,000 crore have been amassed. In stark contrast to this, 1.5 lakh government employees of various state enterprises, boards, corporations and educational institutions have been working without pay, many for as long as the past five years. Similar has been the plight of some two lakh teaching and non-teaching employees of unaided educational institutions in the state who complain they have been working without salary for more than 10 years. A number of teachers are reported to have died of starvation or committed suicide.

This tragic fall-out of administrative malfunctioning in Bihar makes mockery of Laloo Prasad Yadav's talk of social justice. Though he has stoutly rejected the demand of the agitating teachers to terminate the policy of allowing unaided educational institutions, citing the additional expenditure of Rs 1,000 crore as impossible for the government to bear, he has allowed systematic plundering of the state treasury during his six years as chief minister. Laloo Prasad has blamed the private lobby for spawning unaided educational institutions without satisfying minimum requirements. But what of Laloo Prasad's own assurance to the state legislature in 1990 to renew state aid to these institutions?

Laloo Prasad's six-year rule has turned out to be no different from the previous Congress regimes. A small ruling clique has continued to accumulate privileges. Nepotism remains rampant as shown by the recent appointment of 1,400 lecturers, most of the positions being cornered by close relatives of ministers and top administrators. Health care services, drinking water facilities, roads, education and power supply that enhance the living standards of the masses continue to languish in the state, while large purchases of land have been reported by the income tax department in names of the chief minister's relations and of cabinet ministers. Laloo Prasad's populist gestures of cutting harijan children's hair and bathing them and starting 'charvaha' schools for the shepherd's children have long lost their sheen. The opposition parties, sensing discontent among different sections of the people, have started their efforts to dislodge Laloo Prasad. Whether they succeed or not, the depletion of the state treasury is so beyond redemption, that there can be little hope of relief for the unpaid government employees and teachers.

ASIAN PAINTS

Buoyant Market

ASIAN PAINTS, the premier paint-manufacturing company in India, performed well in 1995-96 following the buoyancy in its end-user industries. Though the construction industry stagnated during the year, the cement and steel industries recorded growth rates of 10 per cent and 14 per cent, respectively, while the automobile industry, another major consumer of paints, saw a 32 per cent growth. Riding piggyback on these segments, the paint industry encountered its third successive year with growth during the year touching 12 per cent in volume terms.

The company was no exception. Its net sales increased by 37.7 per cent and value of production rose by 33.3 per cent over the previous year However, margins were under pressure with the prices of orthoxylene, the sole raw material used in the manufacture of phthalic anhydride (used for manufacturing paints), rising by 11 per cent. Consequently, the company's total manufacturing expenses rose sharply by 41.5 per cent and operating profit increased only 16.9 per cent, somewhat nullifying the effect of the substantial increase in turnover. Interest charges too increased by 38 per cent with the company resorting to increased borrowings (up 48.4 per cent). While depreciation increased by 17.6 per cent, a 6.9 per cent lower tax provision helped Asian Paints post an 18.9 per cent rise in net profit in 1995-96.

The company produced 88,858 tonnes of paints/enamels/varnishes/blacks (up 11.5 per cent), 17,719 tonnes of synthetic resins (down 4.9 per cent) and 17,786 tonnes of phthalic anhydride (up 6.6 per cent) during the year under review. While the paint division saw a 23 per cent rise in turnover to Rs 757 crore, the phthalic anhydride division recorded a turnover of Rs 94 crore, an increase of 22.1 per cent over the previous year.

During the year, a fire in the paint manufacturing block of the company's Mumbai plant led to extensive damage to materials and stores, work-in-progress and fixed and movable assets. However, a major part of these were insured and the company has filed claims with the insurers.

The company's exports increased significantly by 49.2 per cent during the year while imports kept pace with an increase of 45.8 per cent.

Encouraged by its performance, the company rewarded its shareholders by issuing bonus shares in the ratio of one share for every share held. With this, the company's equity capital has doubled to Rs 41.1 crore.

Following the sanctioning of the rehabilitation-cum-amalgamation/merger scheme of Pentasia Chemicals (PCL) by the BIFR, PCL was merged with Asian Paints during the year and its assets and liabilities were transferred with effect from October 1, 1994. The company issued one share in Asian Paints for every 25 shares of the erstwhile PCL.

Meanwhile, the company's projects for expansion of paint manufacturing capacities at Ankleshwar, Patancheru and Kasna are under implementation. The Ankleshwar unit's expanded capacity of 50,000 tonnes per annum will be operational from March 1997 and the other two plants are expected to commence production in the last quarter of 1997-98. The company is increasing its paint manufacturing capacity from the existing 1.18 lakh tonnes to 2 lakh tonnes over the next four years. The expansion is expected to cost the company around Rs 200 crore and is being financed through internal accruals and bank borrowings.

For the first half of 1996-97 the company has achieved a marginal sales growth of 2-3 per cent. It claims that the low growth was due to the robust growth last year and the fact that the Diwali festival this year – a time when the paint industry witnesses a sharp increase in offtake – was celebrated in November as compared to October last year. The growth rate for the company for the entire year is expected to be around 14 per cent in terms of sale volumes and about 18 per cent in terms of sale revenue.

The company's share price is currently quoting at around Rs 300 on the bourses, discounting its 1995-96 earnings per share of Rs 13 by a comfortable 23.1 times.

DABUR INDIA

Fancied by Investors

This century-old-company, which went public only as recently as September 1993, has a strong presence in the domestic pharmaceutical market with around 512 products of its own and a distribution network which comprises around 4.8 lakh retailers, 5,478 dealers and 24 branches. The company's strong brand image is not surprising considering that it spends 5.5 per cent (Rs 31.1 crore) of its value of production on advertising. It also invested Rs 2.5 crore during 1995-96 in research and development through its group company Dabur Research Foundation. The company has five divisions, namely, family products, healthcare, ayurvedic products, pharmaceuticals and exports with first two divisions contributing 73 per cent of the total sale revenue of the company.

In 1995-96 the company saw a 44.2 per cent rise in net profit on a 43.7 per cent rise in the value of production over the previous year. The company produced 7,168 tonnes of 'chyawanprash' during the year under review against 5,677 tonnes in the previous year, representing an increase of 26.3 per cent. While net sales were higher by 38.9 per cent, manufacturing expenses rose by 42 per cent. Following a lower rise in other operating expenses, the company's operating profit climbed by 50.6 per cent. While interest charges rose by 33.5 per cent and depreciation provision increased by 47.8 per cent, tax provision remained constant at last year's level of Rs 7 crore.

The company's exports increased by 46.6 per cent during the year while imports rose by 27.8 per cent. The company's London branch consolidated its operations with a 70 per cent increase in sales. Dabur India also opened a branch office in Dubai to cater to the ever growing demand for its products in the UAE market. Its subsidiary in Egypt, Dabur Egypt, which was set up to manufacture Vatika oil, herbal tooth paste, herbal shaving cream, glucose, etc, has recently commenced commercial production.

Dabur India is setting up a joint venture in Barbados with a 50:50 shareholding with ChiRex in order to manufacture an anti-cancer drug developed in-house, namely, Pacitaxel. Dabur India has also entered into a joint venture agreement with Narini Trading of South Africa and Maitri International (India) to manufacture, sell and trade in the 'Dabur' range of pharmaceutical items in South Africa.

The company completed several projects during the year which included a modern plant meeting international standards for the production of Hajmola tablets at Baddi, Himachal Pradesh; a plant for manufacturing hygienic amla pulp at Katni, Madhya Pradesh; a production facility for ayurvedic veterinary products at Alwar; and expansion of its bulk drug production range with the introduction of melatonine.

It also completed a modernisation programme which envisaged upgrading its existing manufacturing facilities, removal of bottlenecks, increasing productivity and efficiency of plant, installation of sophisticated packaging machines to support introduction of new products and flexible packaging and upgrading the utilities in various plants to take care of growing requirements. The company is now setting up a new injectable unit and another unit for manufacturing honey, pudinhara and shilajit at Baddi and these are expected to be commissioned during 1996-97. Another major unit is also proposed at Baddi for meeting the growing demand for the company's leading healthcare and ayurvedic products.

Dabur India has also initiated a three-year plan to modernise and expand its distribution network. The company's share price currently quotes at around Rs 250 on the bourses discounting its 1995-96 earnings per share by a healthy 20.7 times, reflecting the high investor fancy for the scrip even in a dull market.

(Rs lakh)

Growth and Financial Indicators/ Year Ending	Asian Paints March 1996	Asian Paints March 1995	Dabur India March 1996	Dabur India March 1995	VST Industries March 1996	VST Industries March 1995
Income/appropriations						
1 Net sales	70 459	51158	53752	38711	26170	24904
2 Value of production	72146	54136	56786	39532	26290	25022
3 Other income	730	816	1600	1752	1076	1225
4 *Total income*	72876	54952	58386	41284	27366	26247
5 Raw materials/Stores and spares consumed	40454	30082	10761	8029	12815	13997
6 Other manufacturing expenses	9925	6799	25978	17837	583	443
7 Remuneration to employees	3242	2581	2312	1622	2517	2338
8 Other expenses	8952	6676	11818	8805	6502	4179
9 *Operating profit*	10303	8814	7517	4991	4949	5290
10 Interest	1417	1027	2197	1646	1664	1312
11 *Gross profit*	8822	8056	5346	3901	3872	4496
12 Depreciation	902	767	1206	816	599	436
13 *Profit before tax*	7920	7289	4140	3085	3273	4060
14 Tax provision	2700	2900	700	700	1015	1444
15 *Profit after tax*	5220	4389	3440	2385	2258	2616
16 Dividends	1619	1294	855	855	926	1235
17 Retained profit	3601	3095	2585	1530	1332	1381
Liabilities/assets						
18 Paid-up capital	4012	1991	2850	2848	1544	1544
19 Reserves and surplus	16401	14771	13252	10676	9943	8632
20 Long-term loans	5433	2565	8513	6419	5021	5517
21 Short-term loans	8506	6826	10963	8343	6786	5084
22 Of which bank borrowings	8492	5726	10651	6499	5136	4784
23 Gross fixed assets	18656	13320	15933	11401	10239	8410
24 Accumulated depreciation	6677	4811	5374	4176	3939	3320
25 Inventories	14591	12876	10747	6280	5038	4998
26 Total assets/liabilities	47036	37542	44992	35690	28028	24557
Miscellaneous items						
27 Excise duty	13718	14499	2426	1700	34844	38998
28 Gross value added	13128	11524	9145	6574	7772	7647
29 Total foreign exchange income	1611	1071	4883	3345	943	1100
30 Total foreign exchange outgo	9314	6348	1589	1354	1557	1243
Key financial and performance ratios						
31 Turnover ratio (sales to total assets) (%)	149.80	136.27	119.47	108.46	93.37	101.41
32 Sales to total net assets (%)	205.11	195.61	151.08	136.86	112.35	119.86
33 Gross value added to gross fixed assets (%)	70 37	86.52	57.40	57.66	75.91	90.93
34 Return on investment (gross profit to total assets) (%)	18.76	21.46	11.88	10.93	13.81	18.31
35 Gross profit to sales (gross margin) (%)	12.52	15.75	9.95	10.08	14.80	18.05
36 Operating profit to sales (%)	14.62	17.23	13.98	12.89	18.91	21 24
37 Profit before tax to sales (%)	11.24	14.25	7.70	7.97	12.51	16.30
38 Tax provision to profit before tax (%)	34.09	39.79	16.91	22.69	31.01	35.57
39 Profit after tax to net worth (return on equity) (%)	25.57	26.18	21.36	17.64	19.66	25.71
40 Dividend (%)	65.00	65.00	30.00	30 00	60.00	80.00
41 Earning per share (Rs)	13.01	22.04	12.07	8.37	14.62	16.94
42 Book value per share (Rs)	50.88	84.19	54.43	45.35	64.64	56.01
43 P/E ratio (based on latest and corresponding last year's price)	23.06	14 33	20.71	27.70	7.86	10.15
44 Debt-equity ratio (adjusted for revaluation) (%)	26.62	15.30	54.88	49.70	50.31	63.80
45 Short-term bank borrowings to inventories (%)	58.20	44.47	99.11	103.49	101.95	95.72
46 Sundry creditors to sundry debtors (%)	34.59	41.57	22.74	29.86	57.28	68.71
47 Total remuneration to employees to gross value added (%)	24.70	22.40	25.28	24.67	32.39	30.57
48 Total remuneration to employees to value of production (%)	4.49	4.77	4.07	4.10	9.57	9.34
49 Gross fixed assets formation (%)	40.06	7.93	39.75	–	21.75	–
50 Growth in inventories (%)	13.32	67.39	71.13	9.75	0.80	–27.08

Lower Profit

The operations of the cigarette manufacturer, VST Industries, suffered in 1995-96 with net profit declining by 13.7 per cent over 1994-95. The hike in excise duty yet again in the 1995 budget on all segments except in the lowest category (non-filter cigarettes up to 60) was the main reason for this lacklustre performance. Further, the imposition of luxury tax in the states of West Bengal, Orissa and Maharashtra and the entry tax in Bihar added to the decline in profitability with the total impact on the company and its subsidiaries on this account touching Rs 13.4 crore during the year under review.

Thus, though both net sales and value of production increased by 5.1 per cent, operating profit fell by 6.5 per cent over the same period. This was in spite of a 7.2 per cent drop in manufacturing expenses during the year. The bottom line suffered despite a 29.7 per cent dip in tax provision, mainly due to sharp increases in interest charges (up 26.8 per cent) and depreciation provision (up 37.4 per cent).

The company's financial services division performed poorly due to the tight money market situation and the sluggishness in the secondary capital market. As compared to an income of Rs 3.5 crore last year, revenue from this division saw a sharp fall to Rs 1 crore. The division sold 1,10,79,790 units under the Unit Scheme 1964 realising Rs 17.8 crore as the scheme was no longer attractive following the withdrawal of tax incentives offered earlier. Following the poor performance of this division, the company has now decided to divest its controlling interest in its wholly-owned subsidiary, VST Investments.

Due to the fall in profitability, the company was forced to cut the dividend rate from 80 per cent last year to 60 per cent during the year under review.

The company produced 15,143 million cigarettes against 13,469 million produced in the previous year, an increase of 12.4 per cent. Though sale, in volume terms, was higher by 12.2 per cent at 14,981 million cigarettes, the average per unit realisation suffered with total sale revenue from cigarettes falling by 0.2 per cent over the previous year. Export revenue too declined by 14.3 per cent mainly due to the fact that export of cigarettes to the former Soviet Union countries was severely hampered. Imports, on the other hand, increased by 23.4 per cent. However, the company continued to remain the largest domestic exporter of cigarettes to west Asia.

With the company's earnings per share (EPS) falling from Rs 16.9 last year to Rs 14.6, its share price has also declined and is currently Rs 115 on the bourses, discounting its EPS by 7.9 times.

CURRENT STATISTICS

EPW RESEARCH FOUNDATION

A distinctive feature of the OECD countries in the past decade has been a further fall in the share of industrial employment and in the contribution to GDP by industry with a corresponding increase in the share of the services sector Current government expenditure ranges from, 36 per cent to 67 per cent of GDP. Governments of all large industrialised countries show net dissaving Tax receipts constitute 30 per cent to 50 per cent of GDP. Interestingly, only a few countries like the US, UK and Japan have a positive balance in the technological balance of payments, this is also reflected in a relatively low proportion of patent applications from abroad.

Macroeconomic Indicators

Index Numbers of Wholesale Prices (1981-82 = 100)	Weights	Dec 7, 1996	Variation (Per Cent): Point-to-Point								
			Over Month	Over 12 Months		Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93
				Latest	Previous	1996-97	1995-96				
All Commodities	100.0	318.6	–0.2	6.9	6.5	6.4	4 5	5 0	10.4	10.8	7.0
Primary Articles	32.3	333.9	–0.1	8.9	5 9	8.4	5.0	5.4	12.7	11.5	3.0
Food Articles	17.4	385.2	0.4	14.0	5.9	11.7	7.6	9.8	11.9	4.4	5.4
Non-Food Articles	10.1	330.0	–1.1	1.4	5 8	4.0	0.6	–1.9	15.5	24.9	–1.4
Fuel, Power, Light and Lubricants	10.7	333.0	0.0	17.1	1.1	12.8	–0.1	3.7	2.4	13.1	15.2
Manufactured Products	57.0	307.3	–0.2	3.9	8 0	4.0	5.2	5.0	10.7	9.9	7.9
Food Products	10.1	302.6	–1.2	7.7	2 2	11.8	3.1	–0.7	8.1	12 3	6.8
Food Index (computed)	27 5	354.9	–0.1	12.0	4.7	11 8	6 1	6.3	10.6	7 0	5.8
All Commodities (Average Basis) (April 6-December 7, 1996)	100 0	311.9	–	5.4	9.5	5.8	8.9	7.8	10.9	8.3	10.1

Cost of Living Indices	Latest Month	Variation (Per Cent): Point-to-Point								
		Over Month	Over 12 Months		Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93
			Latest	Previous	1996-97	1995-96				
Industrial Workers (1982=100)	346[10]	0.6	8.5	10.4	8.5	8.9	8.9	9 7	9 9	6 1
Urban Non-Man Emp (1984-85=100) (for 1995-96)	264[11]	0.4	10.0	9.1	8.2	8.1	–	9.9	8.3	6.8
Agri Lab (1986-87=100) (Link factor 5.89)	259[9]	1.2	7 9	13.2	9.3	8.6	7.2	11.1	11.2	0.6

Money and Banking (Rs crore)	Nov 22, 1996	Variation					
		Over Month	Fiscal Year so far		1995-96	1994-95	1993-94
			1996-97	1995-96			
Money Supply (M_3)	653987	7438 (1 2)	52151 (8.7)	31609 (5.9)	70410 (13.2)	79241 (17.5)	73307 (19.3)
Currency with Public	128955	5409 (4 4)	10794 (9.1)	11549 (11.5)	17480 (17.4)	18698 (22.8)	14170 (20.9)
Deposits with Banks	518620	2920 (0 6)	38285 (8 0)	16521 (3.9)	52973 (12.4)	59685 (16.2)	57925 (18.7)
Net Bank Credit to Govt	281013	4053 (1.5)	23602 (9.2)	22727 (10.2)	34991 (15.7)	16328 (7 9)	28855 (16.3)
Bank Credit to Comml Sector	348442	1594 (0 5)	7540 (2.2)	21042 (7.2)	48179 (16.5)	48059 (19.6)	17161 (7 5)
Net Foreign Exchange Assets	88365	1823 (2.1)	11209 (14.5)	–98 (–0.1)	–628 (–0 8)	25159 (47 8)	27674 (110.9)
Reserve Money (Nov 29)	189216	2624 (1 4)	–5120 (–2.6)	16113 (9.5)	25054 (14.8)	30611 (22.1)	27892 (25.2)
Net RBI Credit to Centre (Nov 29)	126005	2698 (2 2)	7237 (6 1)	16145 (16 3)	19855 (20.1)	2130 (2.2)	260 (0.3)
Ad hoc Treasury Bills (Dec 6)	38395	2105	8950	11850	5965	1750	6300
Scheduled Commercial Banks (Dec 6)							
Deposits	469180	3963 (0 9)	35361 (8 2)	14076 (3.6)	46961 (12.1)	53629 (16.1)	52144 (18.6)
Advances	257436	880 (0.3)	3421 (1.3)	18695 (8.8)	42455 (20.1)	40638 (23.8)	11566 (7.3)
Non-Food Advances	248663	1067 (0 4)	4439 (1 8)	19272 (9.7)	44938 (22.5)	37798 (23.4)	8875 (5.8)
Investments	183929	3325 (1 8)	19147 (11.6)	11096 (7 4)	15529 (10 4)	14171 (10.5)	28641 (26.9)

Index Numbers of Industrial Production (1980-81=100)	Weights	July 1996	Fiscal Year So Far		Fiscal Year Averages					
			1996-97	1995-96	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
General Index	100.00	285.1	283 1(9.3)	259.1(12.3)	284.3(12.1)	253.7(9.4)	232.0(6.0)	218.9(2.3)	213.9(0.6)	212.6(8.2)
Mining and Quarrying	11.46	243.0	247.7(1.8)	243.4(15.4)	265.9(6.9)	248.8(7.5)	231.5(3.5)	223 7(0.6)	222.5(0.6)	221.2(4.5)
Manufacturing	77.11	282.8	279.3(11.7)	250.1(11.9)	278.8(13.6)	245.4(9.8)	223.5(6.1)	210.7(2.2)	206.2(–0.8)	207.8(9.0)
Electricity	11.43	343.0	344.1(2.5)	335.8(12.5)	340.3(8.2)	314.6(8.5)	290.0(7.4)	269 9(5.0)	257.0(8.5)	236.8(7.8)

Capital Market	Dec 20, 1996	Month Ago	Year Ago	1996-97 So Far		1995-96		End of Fiscal Year		
				Trough	Peak	Trough	Peak	1995-96	1994-95	1993-94
BSE Sensitive Index (1978-79=100)	3110(2 0)	3063	3049(–21.8)	2745	4069	2826	3584	3367(3.3)	3261(–13.7)	3779(65.7)
BSE 100 (1983-84=100)@	1371(–2.4)	1361	1405(–24.4)	1217	1843	1304	1691	1549(–3.5)	1606(–12.2)	1830(79.2)
BSE-200 (1989-90=100)	307(–0.3)	302	308(30.1)	273	413	289	385	345 (–6.3)	368(–18.2)	450(92.3)
NSE (Nov 3, 1995=1000)	884	877	–	788	1196	na	na	na	na	na
Skindia GDR Index (Apr 15, 1994=100)	63.3(–11.5)	60.0	71.5(–21.5)	51.6	90.0	61.6	87.9	78.5(0.7)	78.0	na

@ Renamed index since Oct 14, 1996, compared with the earlier National Index (1983-84=100)

Foreign Trade	October 1996	Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93	1991-92
		1996-97	1995-96					
Exports: Rs crore	9542	66665 (19.8)	55635 (24.7)	106465 (28.8)	82674 (18.5)	69751 (29.9)	53688 (21.9)	44042 (35.3)
US $ mn	2677	18896 (9.1)	17316 (21.7)	31831 (20.9)	26331 (18.4)	22238 (20.0)	18537 (3.8)	17866 (–1.5)
Imports Rs crore	11007	74687 (15.2)	64837 (32.1)	121647 (35.2)	89971 (23.1)	73101 (15.3)	63375 (32.4)	47851 (10.8)
US $ mn	3088	21170 (4.9)	20180 (29.0)	36370 (26.9)	28654 (22.9)	23306 (6.5)	21882 (12.7)	19411 (–19.4)
Non-POL US $ mn	2290	15954 (–3.4)	16524 (32.2)	28822 (26.8)	22727 (29.5)	17552 (11.2)	15782 (12.3)	14047 (–22.2)
Balance of Trade Rs crore	–1465	–8022	–9202	–15182	–7297	–3350	–9686	–3809
US $ mn	–411	–2274	–2863	–4539	–2324	–1068	–3345	–1545

Foreign Exchange Reserves (excluding gold)	Dec 13, 1996	Dec 15, 1995	Mar 31, 1996	Variation Over							
				Month Ago	Year Ago	Fiscal Year So Far		1995-96	1994-95	1993-94	1992-93
						1996-97	1995-96				
Rs crore	69718	60517	58726	–52	9201	10992	–5511	–7302	18402	27430	5385
US $ mn	19460	17349	17126	–18	2111	2334	–3467	–3690	5640	8724	731

Notes: (i) Superscript numeral denotes month to which figure relates, e g, superscript 9 stands for September. (ii) Figures in brackets are percentage variations over the period specified or over the comparable period of the previous year. na = not available.

OECD Countries: Some Key Macro-Economic Aspects

Member Country	Sectoral Contributions: Contribution to Civilian Employment (Per Cent): Agriculture 1994	Agriculture 1984	Industry 1994	Industry 1984	Services 1994	Services 1984	Contribution to GDP (Per Cent): Agriculture 1994	Agriculture 1984	Industry 1994	Industry 1984	Services 1994	Services 1984	Public Sector: Current General Govt Revenue as Per Cent of GDP	Current General Govt Expenditure as Per Cent of GDP	Govt Final Cons Exp as Per Cent of GDP: Total	Govt Final Cons Exp as Per Cent of GDP: Defence	Net Got Saving as Per Cent of GDP	Govt Employment as Per Cent of Total Employment
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
Australia	5.3	6.6	23.7	28.5	71.0	64.9	3.1	4.5	27.7	34.5	69.1	61.0	33.5	36.9	18.2	2.2	–3.4	16.6
Austria	7.2	9.4	33.2	38.1	59.6	52.5	2.2	3.8	34.3	36.9	63.5	59.3	47.3	47.8	19.0	0.9	–0.5	22.4
Belgium	2.6	3.1	27.7	32.2	69.7	64.7	1.6	2.4	27.6	31.1	70.8	66.3	50.9	54.6	16.8	2.6	–3.7	19.3
Canada	4.1	5.3	22.6	25.9	73.3	68.8	2.1	3.1	25.7	31.5	72.1	65.4	42.2	46.5	*	*	–4.3	20.4
Czech Repub	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Denmark	5.1	6.7	26.8	26.8	68.1	66.5	3.0	5.5	23.5	24.1	73.5	70.4	58.3	61.1	26.3	2.0	–2.9	31.8
Finland	8.3	12.2	26.8	32.6	64.9	55.2	4.6	7.7	28.0	33.8	67.4	58.5	52.5	58.9	23.3	1.8	–6.3	24.8
France	5.1	7.9	27.7	33.8	67.2	58.3	2.4	4.0	26.5	30.7	71.1	65.3	46.8	51.0	17.9	3.0	–4.2	24.8
Germany	3.3	4.8	37.6	41.1	59.1	54.1	1.0	2.0	34.2	40.3	64.8	57.7	45.7	45.6	18.3	2.2	0.0	14.9
Greece	20.8	29.4	23.6	27.8	55.6	42.8	11.8	15.5	22.2	25.8	66.0	58.6	40.2	51.2	19.8	4.9	–11.1	*
Iceland	9.4	11.1	26.1	34.2	64.5	54.7	9.6	8.1	22.1	26.4	68.3	65.5	35.9	34.9	20.6	0.0	1.0	19.4
Ireland	12.7	17.0	27.7	29.7	59.6	53.3	6.8	7.8	35.3	35.1	57.9	57.1	40.1	41.7	*	*	–1.6	14.3
Italy	7.5	12.4	33.0	36.1	59.5	51.5	2.9	4.7	31.6	35.5	65.5	59.8	44.9	50.9	17.8	1.9	–6.0	16.2
Japan	5.8	8.9	34.0	34.8	60.2	56.3	2.1	3.3	40.2	41.2	57.6	55.5	32.9	26.9	9.7	0.9	6.0	5.9
Luxemburg	3.7	5.1	31.5	37.3	64.8	57.6	1.4	2.5	33.7	37.7	64.9	59.8	52.9	45.0	*	*	7.9	10.8
Mexico	25.8	*	22.2	*	52.0	*	6.8	8.6	28.7	33.5	64.6	57.9	*	*	*	*	*	*
Netherlands	4.0	5.0	23.0	28.3	73.0	66.7	3.4	4.0	26.9	32.3	69.7	63.7	52.0	53.2	15.3	2.7	–1.2	12.7
New Zealand	10.4	11.2	25.0	32.1	64.6	56.7	7.3	9.6	25.9	32.6	66.7	57.8	*	*	*	*	*	22.1
Norway	5.6	7.7	23.1	27.4	71.3	64.9	2.9	3.3	34.7	42.0	62.4	54.6	55.3	52.9	21.5	3.2	2.4	28.7
Portugal	11.5	23.8	32.8	34.1	55.7	42.1	6.0	7.1	36.5	37.7	57.5	55.2	36.0	34.7	15.1	1.5	1.3	14.7
Spain	9.8	18.5	30.1	32.7	60.1	48.8	4.1	5.9	34.4	37.3	61.6	56.8	40.1	43.7	15.6	1.5	–3.6	15.1
Sweden	3.4	5.1	25.0	29.8	71.6	65.1	2.0	3.4	27.0	30.6	71.0	66.0	59.0	67.3	27.9	2.4	–8.3	32.6
Switzerland	4.0	6.2	28.8	35.7	67.2	58.1	3.0	3.6	33.5	35.6	63.5	60.8	36.0	36.7	*	*	–0.7	14.1
Turkey	44.8	50.4	22.2	21.0	33.0	28.6	15.5	21.2	33.2	26.4	51.4	52.4	*	*	*	*	*	*
UK	2.2	2.7	26.2	33.4	71.6	63.9	1.7	2.0	27.7	35.3	70.7	62.6	36.8	42.7	22.0	3.8	–5.9	16.9
USA	2.9	3.3	24.0	28.5	73.1	68.2	1.7	2.3	26.1	32.0	72.1	65.7	31.7	35.8	17.1	*	–4.1	14.5

Member Country	Taxation: Total Tax Receipts as Per Cent of GDP	Tax Structures as Per Cent of Total Tax Receipts: Personal Income Tax	Corporate Income Tax	Social Security Contributions: Employees	Social Security Contributions: Employers	Taxes on Goods and Services	Other Taxes	Rate Schedules of Central Govt Personal Income Tax: Lowest Rate (Per Cent)	Highest Rate (Per Cent)	Science and Technology: Technological Balance of Payments (Million $): Receipts	Payments	Balance	Patent Applications: Total in Country	Of which, from Abroad	Applications Abroad	Resident and Abroad per 1,00,000 of Total Population
	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)
Australia	28.7	40.8	12.8	0.0	0.0	29.8	16.5	20.0	47.0	198.3	351.8	-153.5	30107	73.1	31852	226
Austria	43.6	21.6	3.5	14.5	16.7	29.3	14.4	10.0	50.0	118.0	417.7	-299.7	44476	95.0	12011	178
Belgium	45.7	30.4	4.8	11.5	21.6	26.3	5.5	25.0	55.0	2386.2	2661.5	-275.3	46051	97.9	11816	128
Canada	35.6	37.9	5.7	5.4	11.0	26.6	13.3	17.0	29.0	926.1	919.9	6.1	47354	92.3	30270	118
Czech Repub	*	*	*	*	*	*	*	15.0	44.0	*	*	*	11799	92.4	1258	*
Denmark	49.9	52.1	4.4	2.6	0.7	31.7	8.6	22.0	40.0	*	*	*	39999	97.1	20373	415
Finland	45.7	35.7	2.7	2.7	22.5	32.2	4.2	7.0	39.0	43.4	307.0	-236.6	15350	85.8	23505	507
France	43.9	13.9	3.4	13.6	27.3	26.7	15.0	5.0	56.8	2012.4	2791.6	-779.2	78906	83.8	72490	148
Germany	39.0	27.1	3.6	16.9	19.7	27.8	4.9	19.0	53.0	7287.2	10281	-2994.0	99186	64.4	173521	257
Greece	41.2	9.3	5.0	15.1	14.1	43.9	12.6	5.0	40.0	*	*	*	36881	99.0	889	12
Iceland	31.3	29.6	3.0	0.3	7.7	49.8	9.5	34.3	34.3	*	*	*	146	76.7	66	38
Ireland	36.3	32.0	8.1	5.5	9.1	38.3	6.9	27.0	48.0	*	*	*	36701	97.8	3988	134
Italy	43.8	27.2	9.3	6.6	20.8	25.9	10.3	10.0	51.0	939.3	1641.4	-702.1	63853	87.9	34616	75
Japan	29.1	25.6	14.9	12.7	17.4	14.4	14.8	10.0	50.0	3600.4	3264.2	336.2	379415	12.5	128037	369
Luxemburg	44.6	20.5	16.3	11.0	13.9	26.9	11.4	10.0	50.0	*	*	*	37051	99.8	1197	337
Mexico	*	*	*	*	*	*	*	3.0	35.0	*	*	*	8212	93.3	245	1
Netherlands	48.0	25.4	7.0	24.0	6.9	25.3	11.4	13.0	60.0	6208.2	6138.9	69.4	50439	96.4	38870	266
New Zealand	35.7	44.8	10.6	0.0	0.0	34.1	10.5	24.0	33.0	20.8	15.6	5.2	12475	90.0	7452	250
Norway	45.7	25.2	8.1	8.4	15.2	38.1	4.9	9.5	13.7	121.5	182.6	-61.1	14552	93.1	8857	229
Portugal	31.4	19.9	7.2	9.9	16.0	42.6	4.4	15.0	40.0	*	*	*	37008	99.7	427	5
Spain	35.1	24.0	5.7	6.4	26.5	26.8	10.6	20.0	56.0	896.6	1929.9	-1033.3	50004	95.6	7575	25
Sweden	49.9	36.8	4.5	0.2	26.3	27.4	4.8	20.0	20.0	397.3	44.7	352.5	47680	92.0	42328	529
Switzerland	33.2	32.8	5.8	11.7	11.2	16.7	21.8	1.0	13.2	*	*	*	47271	93.1	41043	638
Turkey	23.5	27.1	4.9	7.3	11.3	31.8	17.6	25.0	50.0	*	*	*	1226	86.2	26	0
UK	33.6	27.8	7.2	6.6	10.5	35.3	12.5	20.0	40.0	2873.6	2515.2	358.5	89615	79.0	121122	240
USA	29.7	34.5	7.9	11.5	16.5	17.2	12.4	15.0	39.6	20398.0	4840.0	15558.0	189371	47.1	499659	233
EU average	41.0	25.8	6.8	10.8	15.6	31.5	9.5	15.9	49.2							
OECD average	38.5	29.3	6.9	8.5	14.3	30.2	10.8	15.5	41.7							

* means not available.

Source: *OECD in Figures* (1996 Edition), Supplement to the OECD Observer.

ASSAM

The LOC Snowball

Hiren Gohain

While the charge of 'Indian' exploitation of Assam can be sustained without much difficulty, such exploitation would be impossible without true-blue Assamese leaders co-operating heartily in return for a share of the loot. Their share has come in the form of central grants under different schemes and projects. In fact, 'scheme' has meant 'scam' in Assam for several decades. An old and long-drawn-out such scandal, known here as the LOC scam, has now returned to haunt the chief minister and his men.

THE most dangerous development for the AGP government in Assam today is little known or understood outside Assam, in spite of incisive coverage in some of the so-called 'national' dailies. The spokesman of the state government has admitted on the floor of the assembly last week that apart from hundreds who had lost their lives in the Bodo-Santhal ethnic clashes in the Kokrajhar district, more than 400 have died of hunger and disease in so-called shelters and refugee camps erected by the government following the massacres. Few seem to have lost their sleep over such trifles. The flood-affected Dhemaji district in Upper Assam has reported several starvation-deaths. Last week's papers reported ghastly details of pauperised Assamese tribal peasants selling their daughters to libidinous new-rich contractors of the neighbouring Arunachal Pradesh. Again, the news hardly caused a ripple or put an end to triumphal cavalcades of motor-cars transporting ministers and their hangers-on from one end of the state to another. Extremists are on the rampage, gunning down old men, children and even young brides waiting to be married the next day, in frenzied intra-ethnic vendetta. The state government has duly asked the centre to send more companies of the CRP and the centre seems willing enough to oblige, at least for the time being.

These things, disturbing to any right-thinking and sensitive person, are taken in their stride by so-called regional leaders who are not bothered by such regional affairs. It is business as usual, with ministers haranguing captive audiences with ghost-written speeches and addressing seminars (the current panacea against all our ills) on Drugs and AIDS, noised abroad as "the most menacing problem for mankind today". The treasury is in the red. Files do not move in the secretariat and government offices, as all work of development has ground to a halt. A budget has now been presented, six months after the AGP took office, with a staggering deficit of Rs 766 crore (in a budget estimate of Rs 4,291 crore). But the finance department is in chief minister Prafulla Mahanta's hands, and all other ministers are at his mercy for approval of any sizeable expenditure or outlay even for budgeted developmental purposes. The chief minister during the last six months has earned a lot of notoriety for lack of initiative and dynamism. While he is held in some affection for his courtesy and sobriety, his non-communal approach and coolness in the face of tense situations, he has provoked ire by failing to take decisions in time and by his penchant for intrigue and dirty tricks. While he has recently promoted batches of MLAs and party workers as chairmen of important development corporations (and some of those MLAs and party-workers are said to be bumbling tyros), he has also made it known for no funds will be released for those corporations at least for a year.

Old Scandal

Yet all these things do not ruffle the chief minister and his men. What has got under their skin is the latest phase of inquiry into an old and long-drawn-out scandal, known here as the Letters of Credit (LOC) scam. Originally introduced with a view to establishing some kind of financial control over rampant misuse of funds, LOCs turned out to be the most rapacious and lucrative device for plundering the state treasury to be used by corrupt politicians in association with contractors, suppliers and venal officials. While the scam spread its tentacles to 11 departments of the state government, the CBI has been allowed to probe only the animal husbandry and veterinary department. According to the present veterinary minister, the CBI has arrested 17 officers, 17 contractors and seven employees of the department. The joint director of the CBI in charge of the probe stated before a division bench of the Guwahati High Court on December 16 that the CBI had sought the sanction of the state government to proceed against two politicians (AGP leaders?), but has not received it after expiry of three months. The revelation is likely to cause acute embarrassment to a party that came to power by denouncing Congress(I) corruption in mammoth rallies all over the state.

The LOC is a document issued by a department for release of funds earmarked under specific heads for its plans and programmes. It is first endorsed by the finance department and then dispatched to treasury offices located in the district headquarter concerned. The treasury office checks the amount and the purpose mentioned on the document on the basis of instructions received by it from the department concerned. If the amount required to be released fits the facts in its record the treasury office passes the LOC and releases the amount.

The LOC, instead of becoming foolproof, became vulnerable at two points. Unscrupulous officers of the finance department may endorse false bills and LOCs and at the treasury office point also there was room for further manipulation and fraud. The scam apparently started at an obscure rural centre of the Intensive Cattle Development Programme (ICDP), a project funded by the World Bank at a place called Deemow. The scamsters chose the ICDP because dumb cattle were unlikely to leak news of the plunder and their own losses to the press. Another reason attributed to a top AGP leader (I had heard it myself back in 1989) was that the scamsters only helped themselves to World Bank funds and did not touch the money of the Assam government. But since the scam later spread to 10 other departments and engulfed several hundred crores, the original pious restraint apparently did not last long. Two lowly office assistants of the Deemow ICDP centre at Sivasagar district and at the district headquarters and the deputy commissioner (district magistrate) himself are supposed to have been the brains behind the scam. The success of the scam was spectacular. Money flows into the coffers of the district treasury office in a continuous stream. Few bother to keep a tab on the entire inflow and outlet. Hence it was easy for the scamsters to draw out Rs 46 crore from the district treasury office by presenting scores of false LOCs apparently endorsed by responsible officers in the higher rungs of the state bureaucracy, while the entire allocation for the ICDP project in the district had been a mere couple of crores.

One of the office assistants bought property worth several crores of rupees in Guwahati, Mumbai and Bangalore, including hotels, flats in posh areas and started a chain of

newspapers. A junior officer in the district administration, and a young businessman, opened a spate of bank accounts in different banks under assumed names, paying into them tens of lakhs of rupees. A Khasi lady in the finance department got wind of the shady deals and sounded a note of warning, which was duly snowed under the customary bureaucratic verbiage. All this could not have taken place without solid bureaucratic protection and patronage of powerful politicians. The ministers in the animal husbandry and veterinary department come immediately to mind. But there were whispers even at that time that the top man in the government himself was shielding them for his own interest.

Golden Goose for Congress

When the AGP government fell, the stink of corruption was in the air. But there were no definite clues. However, the Congress(I) government under the late Hiteswar Saikia which followed the AGP in 1991 soon stumbled upon this golden goose and lost no time in collecting the golden eggs. In fact it became even more assiduous and systematic in milking the treasury with fake LOCs. Eventually it became impossible to hide the traces of this massive scam. It was Prafulla Mahanta and other opposition leaders in the state assembly who demanded a probe into the scam. The late Saikia offered to hand over the case to the CBI but Mahanta vehemently protested against it on the plea that the CBI was subject to political pressure. Mahanta demanded a 'house committee' to unravel the scam. It soon became plain that members of both parties were involved in the scam, though at different times. While the Congress(I) thought the CBI would protect them. Mahanta must have considered the house committee safer for his friends. The tug-of-war went on in Assam politics all through the term of the Congress(I) ministry, with leaders of both the parties making high-minded speeches against corruption and enjoining everybody else to keep to the straight and narrow path.

Under pressure of mounting criticism in the assembly and in the press, chief minister Saikia asked K S R Rao, additional chief secretary of the state, to inquire into the scam. Rao established the so far nebulous details on a sound footing, though he was preceded by other officers like Dilip Gangopadhyaya, a capable and honest administrator, whose reports must have helped. In any case, afterwards it became customary to refer to the Rao report in public debates on the matter. Saikia refused to make the report public on the familiar excuse that it was against 'public interest'. Nakul Das, veterinary minister in the Saikia ministry, was one of the prime suspects. Das once prostrated himself publicly at Narasingha Rao's feet, deepening public suspicion against him, at a time when the former had not had second thoughts about judicial activism.

Before the last assembly elections when the tide seemed to have turned against Congress(I), incriminating details about the involvement of Mahanta and other AGP leaders in the LOC scam began to appear in sections of the local press in graphic detail. While the details really shook the voters, they still decided to give Mahanta and his friends the benefit of the doubt. The reports were dismissed as Congress(I) forgeries prompted by their hopeless situation. Even some Leftist leaders went out of their way to proclaim from public platforms that corruption was not an issue in the present election.

But, like the Hawala scam, the LOC scam refused to go away or remain safely buried. In fact, if events in Japan, South Korea, Italy and England are any indication, these have deeper roots in the affairs of our time. While globalisation and liberalisation are parts of a global hegemonic strategy of imperialism, they have also brought in their wake certain countervailing tendencies disquieting to the friends of imperialism. Imperialism has to concede a certain transparency in governance as a sop to the multitudes fleeced by the world market, which in its turn has triggered a clamour against corruption in high places, seriously damaging the interests of the ruling classes and exposing their criminal links. So it is rather likely that whole bunches of eminent political crooks will be sacrificed by the prevailing 'global capitalist system' to public fury and demand for revenge in order to appease the idol of democracy. Hegemony has to come at a price.

Imperialist Strategies

The trouble is that in this crucial period of transition to a world capitalist system, under expert guidance from Fund/Bank and the WTO, the north-east with fabulous reserves of natural resources (including uranium and exotic plants and animals beckoning multinational gene-hunters) is caught in a vicious circle of under-development and insurgency. Imperialist powers seem to be toying with different strategies and plans – e g, using insurgency to carve out a Christian state separate from India, allowing the government of India to maintain law and order brutally while risking investments, or letting things boil indefinitely until imperalism can find a 'peaceful' solution. Violence and peace are the names of the two offensives used by imperialism with circumspection. The government of India hopes to increase its bargaining power with imperialism by containing secession and claiming a stake in the natural resources of the region.

There have to be regional politicians acceptable to their own people, or at least to majority communities to hold the north-east in trust. Hiteswar Saikia failed to win the trust of the Assamese, though he did have leading writers, artists and musicians eating out of his hands and singing ecstatic praises of his ability and, well, humanity. The gnomes of New Delhi thought they had a better candidate in Prafulla Mahanta, who managed to win over disgruntled minority communities with suave assurances. But as stated earlier, his stewardship of the state has run into heavy weather. To begin with, the task of restoring normalcy was onerous enough. He seemed happy to let things take ther own course. The idea perhaps was that it did not really matter as long as he and his party remained in the seat of government. So he got resigned to the presence and periodical brutality of the army, started stoking inter-ethnic intrigues that erupted into bloody carnage at times and patronising a model of development for the state that drove the state deeper into the vicious clutches of 'outsiders'. One plus point with him is that he has not yet identified the Enemy with the poor immigrant Muslim, though he has not closed that option either. His critics within the party have been harping on his 'perfidy' in not demanding an outright abolition of the IMDT Act, an ingenious device by which Rajiv Gandhi hoped to keep both the autochthons and the immigrants happy. On the one hand, the Act allowed an ordinary citizen to bypass the police and bring direct charges against anyone he considered an alien and, on the other hand, it laid the onus of proof on his shoulders. Now the indigenous people claim that this IMDT Act is a shield for foreigners masquerading as immigrants, with the AASU roping in eminent celebrities from New Delhi in their campaign against it. The immigrants on the contrary believe that it is their sole safeguard against indigenous chauvinism. (A simple and effective solution to the vexed 'foreigners problem' could be the preparation of a national register of citizens in Assam based on the electoral rolls up to 1971, accommodating both listed voters and their descendants, which would clearly separate the sheep from the wolves. But in these days of frenzy nobody seems keen on that.)

Schemes and Scams

But all such issues are likely to be pushed into the background if it is proved that Mahanta himself was involved in the first master-plan for the LOC scam. Once the state government is compelled to give clearance to CBI interrogation of AGP leaders who were in charge of the animal husbandry and veterinary department during the first spell of AGP rule, it may release a pandora's box of allegations and innuendo that Mahanta will find impossible to control. His prestige

and authority within the party, nurtured with such shrewd skill and patience, may collapse in no time, leaving the party in a shambles.

While the accusation of 'Indian' exploitation of Assam can indeed be sustained without much difficulty, it must also be said that that would have been impossible without true-blue Assamese leaders co-operating heartily in return for a share of the loot. Their share came to Assamese politicians and officers in the form of central grants under different schemes and projects. In fact, 'scheme' has meant 'scam' for several decades in Assam. Since the monitoring was poor or deliberately lax, hundreds of crores of rupees meant for developing agriculture and industry in Assam or helping impoverished peasants and destitute tribals had ended up in fat bank balances and illegal property of the top layers of the Assamese middle class. One gentleman siphoned nearly one hundred crores from the textiles and handloom departments of the government of India under a scheme of providing cheap yarn to poor weaving women. He organised hundreds of fake rural co-operatives with scores of false names on the registers, gave hefty allowances to the impostor-secretaries and presidents of such co-operatives and looted several crores every year from money received under that scheme under the benign smiles of central bureaucrats who issued glowing testimonies to him and amidst the hallelujahs of scores of Assamese artists, writers and journalists who were profoundly moved by his patronage of the arts, and also the fervent blessings of both leading AGP and Congress (I) politicians. When the author of the present article, with the help of documents and facts provided by both genuine social workers and jealous rivals, exposed that scam he was denounced in screaming advertisements by "poor village women" as a "criminal in the guise of intellectual attacking a saintly friend of the poor". The saint is now spending time in jail, having been arrested by the CBI presumably for social service.

The LOC belongs to that class of prerogatives of the Assamese elite. Modernisation has not meant an increase of productive activity, but an increasing scope for plunder of the state treasury, with which one could afford such modern luxuries as foreign travel, posh cars, latest household appliances and VCPs and VCRs. But all good things do come to an end. Insurgency, however, for all its confused slaughter, has started rattling the skeletons in the cupboards. While initially the ULFA and their ethnic brethren had been soft on the indigenous wrongdoers, it is a position that has become increasingly insupportable with the rank and file starting to ask embarrassing questions about the role of the Assamese elite. As constraints on development are being discussed in public, exposures of the massive corruption and fraud in which Assamese politicians and bureaucrats wallowed for decades have also become more frequent and unsettling.

Tightening Noose

The noose of the LOC scam inquiry is tightening around the necks of the guilty every passing week. It has derived strength from the vigour with which, until recently, the Hawala scam and the JMM bribery case have been pursued by the courts in the national capital. The question of course is if Mahanta himself was the kingpin of the LOC scam. The evidence, if any, will be circumstantial. The reason for this massive fraud and robbery on the state is not simply a private itch for ill-gotten wealth. It is party funds, illegally operated by one of a few master-crooks, and unloosened now and then for winning elections, bouncing undesirables, silencing critics and seizing control of the party organisation. The methods necessarily have to be borrowed from mafia arsenals. Mahanta will find the needle of suspicion turning towards him. For one thing, he and the party had been close at one time to Rajendra Prasad Bora, the most efficient and influential of the scamsters. That he enjoyed some kind of political support with bureaucratic cover for his operations is clear enough. Already people are talking of corrupt ministers in the AGP government in its first term in office. The thousand crore question is how far Mahanta himself was knowingly involved.

Among the incriminating documents that have come to light are pages from the register-cum-schedule of drafts issued by the UBI (head office, Calcutta) between November 23 and 25, 1990. The overwhelming majority of those drafts, numbering 53 for those days, had been issued to various youth clubs and social and 'cultural' organisations in Nagaon, Mahanta's home constituency, on the eve of president's rule. Most of those drafts were issued under assumed names. When Mahanta claims he had nothing to do with them and that those had been issued perhaps by 'well-wishers' of AGP, the assumed names of those 'draft-dodgers' raise a big question-mark against him. Nor can it be forgotten that the present number two in the cabinet, Atul Bora, himself drew attention to Mahanta's role in those donations point blank in allegations that seized the headlines of Assamese dailies in 1995 and 1996 before the elections. According to the testimony of Mehtab Hussain, an accountant interrogated by the CBI as an accused in the LOC scam, a sum of Rs 47 lakh was encashed from the Sivasagar treasury office with the usual fraudulent LOCs "for preparation of drafts for Nagaon and Thowra constituencies through R P Bora".

The second piece of evidence is distribution of enormous quantities of C I sheets, a building material much in demand in the countryside of Assam for roofing well-to-do private houses as well as public buildings like schools, libraries, clubs and the ubiquitous 'nam-ghars' or prayer halls. Hussain testified that Rs 55 lakh were drawn with fake LOCs from the same treasury office for purchasing and distributing C I sheets in Nagaon and Thowra constituencies. Under CBI grilling Dhiren Barkakoty, the treasurer of the Nagaon branch of AGP, also revealed that under R P Bora's instructions, on the eve of president's rule and the Bajrang operation of the army, he received and distributed in 1990 bundles of C I sheets coming on five or six trucks. The army operation having interrupted that distribution, he confessed having returned the remainder to Mahanta at his house.

AGP's Future

Of course, these statements do not conclusively prove Mahanta's guilt in the eye of the law. But they certainly call in question his integrity. When one further takes into consideration the fact that scamster Mehtab Hussain, whose service had been extended by several years after his retirement by Mahanta's fiat according to his own confession, had given lakhs of rupees to AGP leaders known to have been close to Mahanta, it looks certain that Mahanta will not be able to escape serious injury to his future political prospects.

Mahanta has qualities which at this crucial moment in the history of the state make him eminently useful to his party and to the Assamese middle class. He is respected for his sobriety and even temper, his courtesy and social graces. If he has to depart in a hurry, it may deal a crippling blow to his party. That will be a pity as genuine and committed regionalism is not without a democratic potential. Unfortunately, the AGP has no consciously spelt-out ideology and seems to hang together only under the influence of rank careerism and unprincipled consensus. This might, then, be the opportunity to convert the party from a feudal outfit into a modern political organisation with a programme and well conceived policies. (A much-trumpeted industrial revival programme, drawn up by a former director of the Asian Development Bank, is gathering dust in the secretariat, to its framer's chagrin.) So far, as has been shown earlier on, corruption has enfeebled and undermined the little bit of development possible even within the present constraints. A change in the character and organisation of the party at this juncture might have made it more responsive to grass roots aspirations. Such a change would have been welcome to small peasants, tribal masses and tea-garden labour, living under the shadow of starvation, epidemics and pauperisation.

Indo-German Consultative Group

A Ringside View

Nirmal Kumar Chandra

Why should the government, plagued as it is by high and rising revenue deficits, finance extra-territorial lobbies such as the Indo-German Consultative Group formed in the wake of economic liberalisation in 1991, ostensibly to promote bilateral co-operation on a 'non-official' basis? The Joint Letter addressed to the heads of the two governments after the Group's last meeting in Berlin at the end of August represents a sell-out to the German government and transnationals.

IT was quite a surprise for me to be invited by the ministry of external affairs to join the 'non-official' Indo-German Consultative Group (henceforth Group) for its meeting in Berlin at the end of August 1996; under the UF regime, it appeared, a couple of economists with 'unorthodox' views were needed in the team. With some hesitation I agreed. After all, I did not have to defend the government. Besides, I had just written in the *EPW* (June 1, 1996) on German reunification and was keen to refresh myself. At my request, the ministry officials graciously arranged for me to meet scholars at the famous Deutsches Institut fur Wirtschaftsforschung (DIW), West Berlin, which has over the decades done commendable work on East and West Germany; when I met them they were as open-minded as I had expected, and my academic 'target' was 'overfulfilled'. On other counts I am less confident.

On reaching Berlin I gathered that the Group was formed in the wake of our liberal U-turn in 1991, to promote bilateral co-operation on a wide front and on a 'non-official' basis, i e, without the politicians and bureaucrats breathing down the necks of free-thinking, responsible citizens. The Group meets once a year, alternately in Germany and India, and recommends measures to improve bilateral ties in practically all spheres of policy-making – economic, political, scientific, academic and cultural. I also learnt that similar Groups exist for other countries as well. As for the costs, our government paid for the travel of Indians, while the Germans footed the generous hospitality bill; conversely, for meetings in India.

Let me move on to the 'happenings' in Berlin. Within a couple of hours of our landing, we were escorted to a reception by the newly elected communist mayor of Berlin. A short time later, the president of the Federal Republic received us. The luxury bus carrying us meandered through many a landmark in the city with running commentary from a guide concerned as much with history as with politics; it was peppered with more anecdotes from members of the German team. In all this discourse the *ancien regime* was the object of scorn: the economy was moribund, the living standards were low, buildings were maintained poorly, factories used outdated technologies, and so on. Several Indians, including some who never had any love for communism, were literally bored to sleep. Eventually, we reached Brandenburg, the seat of the Brandenburg state government which hosted us at the historic hotel where Stalin, Truman and Attlee (replacing Churchill who had just lost the British election) concluded the second world war. The senior ministers of the Social-Democratic state government gave informative speeches on the problems of unification, the efforts made to rehabilitate the economy, the high level of unemployment, and the great subsidy burden on the Federal budget.

This was my chance to get the German official response to my simmering doubts. How do the current levels of industrial production and employment in the East compare with those in 1988 or 1989? How does the volume of overall subsidy to the East compare with the forecasts made initially? If these differed, why? I got accurate answers to the first question. Then I put in a supplementary: why were the current levels as low as one-half for output or one-third for employment? For, in December 1990, or one year after the fall of the Berlin Wall, the IMF, in consultation with the Federal government, published a report forecasting that, after an initial fall, the earlier level of production would be surpassed by 1993 or 1994, while employment would catch up a little later. The Germans got confused; not all apparently knew about the IMF Report, and those who did, were not forthcoming. The same was true for my question on Federal subsidies, now running at about DM 150 billion per year, or roughly DM 8,000 per East German. Towards the end, a Federal official came to me and explained that they were misled by the East German officials. None of the Germans present referred to the intense debates in their country about the role of Treuhand, the German privatisation agency, wound up in 1994; it was so managed, the critics allege, that the sick companies under it became sicker, the agency's losses mounted, and the final sale value of the enterprises was a mere fraction of their 'true' market price. The German officials at the get-together harped on the point that the assets 'had' to be privatised at the earliest, and hence some costs 'had to be borne' by certain social groups or by the national exchequer for the greater 'good'. Does it not ring a familiar bell so us in India?

Evidently, the Germans did not relish my somewhat awkward questions. While it did not affect my personal relations either with the Germans or with the Indian members of the Group who were invariably courteous, it may have had a fallout (see below).

Next morning over breakfast the two sides met separately to chalk out their respective 'tactics' for the formal sessions. We agreed that if the Germans questioned our refusal to sign the Comprehensive Test Ban Treaty (CTBT) on nuclear arms, it should be resisted. Towards the end, I suggested, emphatically endorsed by others, that we should not ask for 'aid' from the Germans in any form.

Actually, the Germans did raise the CTBT and Kashmir issues at the formal session. From the Indian side, there was a spirited defence. I was distinctly unhappy about the pronouncements on Kashmir as I do not subscribe to our official line; but I kept quiet as I felt that the Germans were using it as a tactical weapon to wrest concessions on matters of real concern to them, namely, trade and investment. Indeed, they did not persist, and no joint, or even a separate German, statement was made on the CTBT or Kashmir.

At the formal session on economic issues there were several useful papers. Of these I may mention a lucid presentation of challenges faced by Indian industry from one of our industry associations. The German paper was also illuminating, but with a hidden agendum. The author spoke about the prolonged recession in Germany the high rate of unemployment, and the preoccupation of German industry with central and eastern Europe; by implication investments in south Asia will remain rather low on their priority, and India will have to work 'harder' to obtain a bigger slice of the cake. It reminded me strongly of a lecture back in mid-1992 addressed to Calcutta industrialists by the late Saburo Okita, an architect of postwar Japanese planning, who was heading a delegation of 200 Japanese businessmen. While the Indians were keen on a larger influx of Japanese joint ventures, Okita told them politely that for geopolitical reasons Japan's priority was east and south-east Asia. Further, in her domestic market Japan had consistently favoured national over foreign firms, without which names like Toyota or Nissan could never become household words all over the globe. The Germans, it is well known, had followed a similar strategy, but none from the Group spoke about it. The problem of unemployment, not only in Germany, but also in India, figured in the

discourse of two of India's leading industrialists. Apparently, it will be on the agenda of next year's meeting. That a serious consideration of this issue, as it has been argued by a wide array of trade unions, economists and businessmen in different parts of the world, might run counter to the gospel of liberalisation, was conveniently ignored. Merely talking about unemployment within the neoliberal paradigm would be like going round the mulberry bush. Has the glittering G-7 summit in 1995 on the same issue yielded anything positive?

Due to the heavy schedule, and the fact that I was just requested to present a paper on the following day on 'common responsibilities of the two countries in the international economic context', I had to skip a few sessions. But I witnessed a bit of commotion during the one on media policy.

The German government had circulated a written note calling upon India to allow the DPA, the German news agency, to disseminate news directly to the Indian newspapers and other media. So far, it has been constrained under India's Press Act, 1956, to sell its services to the Indian agency, UNI; however, an exception was made in the case of the British agency Reuter. "*The Federal government would view a complete liberalisation of India's media market as an appropriate measure*" (emphasis added). Further, "the Federal government has noted with great regret the most recent public statements by the Indian prime minister and the information minister ruling out the 'overdue opening'." The final sentence read: "The Federal government also does not conceal its regret that no Indian government to date has been willing to honour the unparalleled contribution which the Federal Republic of Germany has made in its economic and financial co-operation with India (DM 15.8 billion = US $ 10.6 billion in commitments since 1958) by making corresponding concessions in the matter of granting DPA unrestricted access to the Indian market". More than one Indian participant objected to the blatant use of aid to demand policy changes, not unlike the Fund-Bank 'conditionalities'; but the end-result was an anti-climax (see below).

I was unhappy at the way much of the discussion was going, and was biding my time to air my unorthodox views on the subject assigned to me. Why repeat? But the management of time was so cleverly accomplished that my paper or non-paper was simply blotted out. My suspicion was strengthened as I read the draft of the Joint Letter (JL) addressed to the two heads of the government in the name of the Group. Let me quote at some length from the final text:

(a) "The Group noted with satisfaction that progress has been made in several areas for which the Group had submitted suggestions in recent years". For example, (i) conclusion of Investment Protection and Double Taxation agreements between the two countries, and (ii) 'overdue' first steps taken towards the mutual recognition of academic degrees, closer co-operation in the fields of science, technology and environmental policies.

(b) "The Group noted with satisfaction that the economic reforms in India remain on track and continue at a steady pace".

(c) "The Group identified further opening of the financial sector, restructuring of the public sector, fiscal stabilisation, improvement of the infrastructure, and clarity on import and investment policies as calling for special attention and further action by the government of India. The Group agreed on the need for continued deregulation, transparency and competition. In the short run, in addition to simplification of rules and guidelines for the private sector investment in power, priority should be given to improving the operations of existing power plants and systems. *German utilities should be encouraged to invest in the Indian power sector*" (emphasis added.)

(d) "On the basis of many years of positive experience and India's impeccable record of repayment the Group proposed that India's Hermes classification [the German equivalent of Moody's or Standard and Poor] to be upgraded to Category II".

(e) "The Group restated its conviction that enlightened concepts such as protection of the environment, prevention of child labour, and promotion of human rights should not be abused as non-tariff barriers endangering free trade".

(f) 'Finally, it [the Group] proposed the extension of Indo-German dialogue to include the systems of and structures governing the German economy with regard to privatisation, the relationship between companies and financial institutions, the regulation of the stock market, the development of instruments to channel savings into productive investment, and the independence of the Central Bank'.

The draft had been prepared by several small teams and discussed at the final session. I intervened briefly to state that I disagreed with its general tenor, and more specifically, with the sections on media and economic policies.

On media policy, the draft had stated: "In order to assure a more balanced information flow to India, the German side stressed the importance of allowing DPA direct access to the Indian market." The revised text turned it into a recommendation of the whole Group, Indian as well as German. "[T]he Group stressed the importance of open media markets, while realising that this is an unresolved debate in India...Greater media access for DPA to the Indian market, was seen as a crucial element of enhanced mutual understanding". Surely, the special status of Reuter is an anomaly. Instead of 'free entry' for all, one could also abolish Reuter's privilege. So far, neither our parliament nor public opinion support the former.

If the Germans promoted their 'national champions' like DPA and the German utilities in the JL, what did the Indians achieve? Apparently, two points, (d) and (e) above, furthered India's interest. As for Hermes classification, the world of credit rating is inscrutable, often highly 'subjective'. The German side seemed to be equally mystified about the rating. The JL is unlikely to have any impact at all on rating. Regarding (d), there are sectoral protectionists, often with support from their own governments, in rich countries that periodically raise a hue and cry about environment, child labour, etc. But the big transnationals in Germany or elsewhere think otherwise. How can they sell their hi-tech wares if cheap labour-intensive goods from developing countries are altogether weeded out?

The Group recommendations (a), (b), (c) and (f) call for opening up the Indian market, which is sweet music to the German transnationals. Not only did their executives make up a large part of the German team, a number of officials from German subsidiaries in India also found berths in the Indian team.

Let me state briefly some of the other issues that should have been raised. India has a chronic trade deficit, reaching Rs 1,279 crore in 1994-95. Is it ordained by the law of comparative advantages? Why can one not ask for a balanced trade? In textiles and garments, Germany (and the European Union as a whole) not only has a quota system, but it is heavily tilted against south Asia in favour of the major trade partners in east and south-east Asia. Could we not demand a more favourable quota regime? Further, like other industrial nations, Germany has stiff non-tariff barriers on a wide range of other manufactured goods and all agricultural commodities; researches conducted by the IMF, World Bank, etc, bear ample testimony, and the barriers have gone up since 1980 at the same time as liberalisation was thrust upon the indebted third world. On the other hand, we in India have a range of world class products which are 'competitive', e g, BHEL's power generating equipment, C-DOT's telecommunications equipment, black and white as well as colour TV, radio, basic drugs and formulations, etc. Not so strangely, none of these manufacturers, especially from our public sector, found a place in the Indian team.

Let me turn to investments. Like most critics of liberalisation, I do not subscribe to the TINA (there is no alternative) myth. We can borrow a leaf from China. A couple of years ago the Chinese premier Li Peng went to Germany; he offered incentives to investors provided that the Germans undertook to import more from China. As for Germany, she does not practise what she preaches. On the BBC television last October, the former Federal president, Schmidt, spoke bitterly against the Treuhand's selling 80-90 per cent of Eastern assets to West German firms in defiance of all norms, and excluding foreigners as well as buy-outs by East German workers and managers. Actually, the Oberois bid successfully for a hotel in East Berlin

a few years ago, but have since been bogged down in a legal tangle.

In short, the JL represents a sell-out to German government and transnationals in a manner that neither Rao nor Deve Gowda would dare in public. Ironically, the Indian team had more than one staunch critic of post-1991 liberalisation and WTO. Who called the shots from behind the scene? In any case, why should our government, plagued as it is by high and rising revenue deficits, finance such extra-territorial lobbies?

National Security versus People's Insecurity

Gautam Navlakha

The current concern about the shortfall in manpower in the security forces and the inadequacy of resources must be viewed in the context of the fact that new paramilitary forces have been raised, most of which have been engaged in counter-insurgency operations or for intervention in internal conflicts. There is an urgent need for a sharper scrutiny of the defence spendings which has generally been kept under wraps.

IF "war is much too serious a thing to be left to military men" then it is equally important not to leave it to the discretion of the government. As the Indian parliament discards its prerogative to scrutinise the government's expenditure, the boundaries of 'national security' concerns have expanded. The ministry of defence (MOD) in its *Annual Report* 1995-96, apart from the usual reference to the neighbouring countries, speaks of 'global pressures' on India's nuclear option and missile development; of cross-border terrorism "sponsored by states" as "a major security issue"; of India having "immense strategic stakes" in the west Asian region, central Asian states and south-east Asia; and of "non-strategic and non-military pressures". Let alone the public having access to credible information on this, the official perspective as well as the expenditure incurred on the military escapes all examination.

One reason is that the average duration of parliamentary session in a year has come down to 90 days. With this has declined a proper examination of the budget. Until the 1980s the budget sessions used to last for three months and every ministry was subjected to interrogation. For the past decade or more parliament has been so oppressed for time that very few of the ministries are scrutinised. A 'guillotine system' has been in operation which enables ministries to get their demand approved in absentia. The decline in the duration of budget session prompted the parliament to introduce four years ago a system of standing committees for various ministries which examine budget proposals of the respective ministries. However, there is no link between a standing committee which decides on appropriateness of the demand and the acceptance by the parliament of the demand for grant. The chairperson of the standing committee of industry, Ashok Mitra mentions in his report that "while demand for grants of individual ministries are considered in parliament recommendation made by the overwhelming majority of the standing committees fall by the wayside".

For instance this year September 6 was set as the deadline for discussion on ministries' demands. As a result the Lok Sabha passed in just 15 minutes, without discussion, demands for grants of over 35 ministries totalling Rs 4,54,349 crore. The ministries included were defence, home, external affairs and industry. In other words matters related to security which directly affect the life and liberty of the people were approved without examining the premises on which defence expenditure was posited, the use of resources allocated in the past decade or so, the proposed use of the resources demanded, including a cost-benefit analysis. Thus executive accountability to parliament, especially in matters related to security which use up one-fifth of the government's expenditure, has eroded. One reason is that political parties are chary of challenging official assumptions and explanations with regard to 'national security'.

The extent to which governing and opposition parties treat security with kid gloves becomes clear from the silence on issues which were earlier considered important by the parliament. Thus even the left parties have not shown much concern about the growing Indo-US military relations, or the implications of US military presence in the Gulf and the Indian Ocean, or even about the reports that the US is seeking facilities in Sri Lanka. There is also little difference between left or right where Pakistan is concerned. In such a climate differences revolve around the quantum of increase in outlay. For instance, the ministry of defence told the Parliamentary Consultative Committee attached to it that it needed Rs 4,106.61 crore over the 1996-97 budget estimate of Rs 27,798.47 crore. The committee felt that the budget should be enhanced by Rs 2,000 crore over and above the allocation made in the defence budget. And it expressed dissatisfaction with the assurance given by the finance minister that additional funds between Rs 1,000-1,500 crore, would be provided during the current year to meet the revenue shortfalls and the extra burden arising out of the recommendations of the Fifth Pay Commission. Significantly, it is now an established practice to allow enhancement of security-related allocations between the estimate and the revised budget. And in line with this Rs 1,200 crore were allocated for defence. A further increase is quite likely with the government deciding to purchase 40 Sukhoi 30 MK fighter bombers from Russia for Rs 6,300 crore thus making room for the army and the navy to demand advanced weaponry for their forces.

Complaints about cuts in defence budget are clearly misplaced. A perusal of the country's budget and, the *Economic Survey* 1995-96 shows a steady increase in security outlay. For instance, the *Economic Survey* 1995-96 shows that out of the 'total budgetary transactions' of the central and the state governments defence and police outlays (in net terms) rose from Rs 4,800 crore out of total outlay of Rs 36,845 crore in 1980-81 to Rs 36,000 crore out of Rs 3,40,000 crore in 1995-96. This does not take into account expenses tucked away under other headings such as coast guards under the finance ministry, missile build-up under the department of space, nuclear arms preparations under the department of nuclear energy as well as defence pensions, etc, which together push the outlay in 1995-96 upwards by Rs 6,000 crore. In the absence of understanding this historical trend and dispersal of allocations members address the issue superficially, bereft of the need even for prudent resource management.

Avoidable Expenditure

Strangely, even within the parameters of the needs spelt out by the government there are revealing facts. For instance, according to the *Annual Report* of the ministry of defence 1995-96 "Pakistan is ...on an arms acquisition spree" and this leaves India "with no option but to upgrade its own defence capabilities". If for the sake of argument one concedes that this demand is justified it still does not mean additional resource allocation. For instance, the Indian Air Force has lost 82 aeroplanes in 44 months. Financial loss excluding the cost of the aircraft written off comes to Rs 457.5 crore. Only nine were due to bird strikes, the rest because of technical failure or pilot error. Surely the IAF should put its house in order before seeking more money? Besides there is another kind of wastage. According to an audit report of the MOD one lakh AK-47 rifles procured from Romania in 1993 at a cost of Rs 350 crore

were lying unused because North Korea failed to supply ammunition. If to these are added the resources diverted for paying kickbacks, for purchases that are of a questionable nature, or for maintenance of golf courses, or building polo grounds by destroying Delhi's ridge, etc, there is enough room for economy even within the parameters of official security assumptions.

It is also necessary to recognise that there is a mismatch between the stated national security perspective and the purposes for which the arsenal is acquired. As it is let alone the public even the parliament is not privy to premises and other parameters of national security. The Parliamentary Standing Committee on defence which by no stretch of imagination can be considered less jingoistic laments that the MOD informed them that they were denied access to national security documents as a result of a 'conscious decision' of the government. This obviously implies that the officials, who are not elected and therefore have no public accountability have decided to deny Indian people the right to know what the government's security policy is supposed to be. Beyond the narrow corridors of officialdom the policy remains a secret. For all we know it does not exist. A glimpse shows that the national security perspective of the MOD moves from the global to the regional to the local factors which have an "impact on Indian security". It is asserted by the MOD that in view of "the proliferation of nuclear weapons and missiles in our neighbourhood, adequate defensive measures are inescapable". It merely takes 'note' of the "US's substantial forward deployed force projection in the Gulf and the Arabian See areas" and also of the "non-strategic and non-military pressures". Which in operational terms means that nothing need be done in response to this. Not surprisingly, there is also no corresponding acknowledgement that the US by storing weapons of mass destruction and its military presence in a region adjacent to the 'neighbourhood' poses a threat to the "immense strategic stakes" that India has in west Asia and the Indian Ocean region. The reason is that the GOI downplays the belligerent role of the US in the region in order to expand Indo-US military ties.

Indian and US marines held an exercise near Ratnagiri in September, the two air forces will hold it later this year and this will include paratroopers. Also, a US coastguard ship is to visit Mumbai for the first time sometime this year. This development has to be read together with our dependence on international capital flow. It has reached a point where the government's economic policy is no longer questioned. Instead, it is now geared to discussing the nitty-gritty of attracting direct foreign investment to cover the current account deficit. Ironically an increase in our economic vulnerability on account of the policy of economic 'liberalisation' has been accompanied with the projection of a nuclear option and missile development as central to national self-pride. Opposition to CTBT was greeted as though the country had won an Olympic gold medal. Indeed just as terrorism is the single most important source of threat faced by the country these two weapons are being presented as the single most important source of enhancing India's standing in the world and our ticket to big power status. To be sure these weapons offer no insurance against imperial powers. And if we remove the chaff from the grain then these weapons enable their use as instruments of coercive diplomacy in the neighbourhood. As it is the augmentation of force is being justified in the name of a threat posed by Pakistan when our armed forces outmatch that of Pakistan acquisition of arms by India has kept pace with if not actually outpaced Pakistan, and it is our missiles that threaten all of Pakistan.

Nevertheless, the most important factor which compels one to question the prevalent national security perspective is that the bulk of budgetary allocations go towards maintaining the huge standing army and paramilitary which are engaged in internal security operations. The MOD's report refers to "terrorism exported by Pakistan"; that "religious militancy...finds training and arms in Pakistan"; "ISI support a number of insurgent groups in north-eastern India"; and "Pakistan's strategy is to embroil India in internal security problems". This glosses over the internal origins of movements for opting out of India and projects them as being foreign-inspired terrorism. Significantly, deployment of armed might of the government implies a corresponding disfranchising of people. The ministry of home affairs says in its *Annual Report* 1995-96 that "keeping in view the reach, size and magnitude of terrorist violence in India and the aid, assistance and connivance from across the border to anti-national elements, the government introduced the Criminal Law Amendment Bill 1995 in the Rajya Sabha". This is despite the countrywide revulsion against TADA. And now we have the Parliamentary Standing Committee on home ministry advocating that if "diplomatic efforts do not yield results as a last resort the doctrine of hot pursuit be adopted". By advocating escalating the conflict government's culpability in causing internal wars is pushed into the background. In addition military suppression to deal with political issues means increase in force deployment which then becomes the *raison d'etre* for force augmentation.

Paradoxically, it was the third Territorial Army Review Committee which questioned the need for a large standing army and called for reducing its size so as to cut down defence expenditure "since up to 70 per cent of the defence budget goes into pay, allowances and pensions" (*The Times of India*, August 7). Moreover, Rs 830 crore out of the additional amount of Rs 1,200 crore allocated to MOD is in lieu of higher DA and bonus for the armed forces personnel. Astonishingly, instead of discussing the pros and cons of the standing army the demand has been voiced to reverse the shortfall in the army by making salaries and perquisites attractive. Reportedly, there is a shortage of 73,000 personnel including officers and other ranks. Also the army has been called in over the past five decades 33 times in UP, 29 in Assam, 16 in Rajasthan, 13 in West Bengal apart from their active presence for past 35 years in the north-east and seven years in Jammu and Kashmir for counter-insurgency. Therefore the army chief claimed that "shortage of manpower is bound to lead to inefficiency and create strain on those in authority... A shortage...will...affect its performance" (*The Times of India*, September 3).

What raises doubts about this reasoning is the fact that the bulk of the shortage of 12,586 officers and 59,436 jawans is primarily in the infantry and artillery battalions. It is these battalions that are engaged in internal wars. For instance, the shortfall of officers in infantry is 3,017, whereas the shortage of JCOs and other jawans number 23,105. In the artillery the respective figures are 2,567 and 23,393. The other factor responsible for manpower shortage is because the MOD raised 36 battalions of new paramilitary force under its command called Rashtriya Rifles. In other words the shortfall is not due to unattractiveness of salaries and perks. Rather it is the fallout of deploying 'Armed Forces of the Union' against our own people and the hardship of counter-insurgency. If anything, this calls for reducing their engagement in internal wars as well as initiating peaceful solutions to internal conflicts.

However, all these demands for reversing manpower shortfall, etc, only mean that the operational parts of the official national security perspectives are related to internal wars which consume large portions of budgeted resources. When this is placed against the background of the failure of militaristic solutions employed by policy-makers, proliferation of internal wars, attempts to build weapons of mass destruction in the name of national pride, etc, then allocations of huge resources for 'national security' need to be thoroughly examined, debated, and drastically pruned. Not only is there need to interrogate what passes for 'national consensus' but it is imperative to press for democratic solutions to problems of alienation and oppression. The prevalent notion of national security must be turned on its head. It is recourse to military solution that threaten the democratic aspirations of the people, reduce the appeal of non-violent peaceful struggle, and helps prolong a conflict. This helps exaggerate the threat posed by the neighbouring countries and justifies a military build-up. Thereby, scarce resources are diverted for building up the coercive powers of the government for use against our own people.

Child Labour: A Global Crisis without a Global Response

Francoise Remington

International competition and demand for cheap goods has resulted in global exploitation of child labour in recent years. The World Bank not only continues to finance projects which contribute to the growth of child labour but also eulogises industries which rely on child labour as success stories in its discussion papers.

THE growth of child labour worldwide is the result of globalisation and we all bear some responsibility for its growth. Consumers, human rights groups, child rights activists, religious organisations, politicians, governments, international organisations (such as ILO with its international programme on the elimination of child labour (IPEC), and UNICEF) are joining the world campaign to stop the abuse of exploited children. The most recent example is the 'International Child Labour Elimination Act' introduced by Chris Smith, the chairman of the subcommittee on international operations and human rights, committee on foreign affairs, US House of Representatives, and his co-sponsors, representatives Hyde, Lantos, Moran, Kennedy and Ro-Lehtinen. Introduction of the proposed legislation is a courageous first step which deserves to be applauded and needs more public recognition.

The act offers concrete solution to eliminate child labour. If enacted, it will prohibit importation into the US of products manufactured in countries and industries that use child labour; it will also require that the US representatives to multilateral lending institutions oppose loans and other subsidies to or for any industry in which child labour is of use; finally, it will authorise the appropriation of a $10 million contribution in each of the next five fiscal years to the IPEC programme of the ILO. Clearly, the act will be the starting point for concrete steps to be taken by the world community to improve the lives of million of working children.

In addition, American import industries and multinational corporations could join this effort by requesting that regular monitoring conducted by local labour inspectors take place to insure that child labour is not used in any phase of product fabrication. Global corporations could also establish, with the help of community based organisations, an education fund to give scholarships or establish basic education projets for children of the poorest workers. These projects will not only give them a good-will image but will also build a trusting relationship with workers who can inform the educators without any risk for their lives or the lives of their children whether child labour is used in the factories.

Independent monitoring systems established by non-profits can ensure that children are not being exploited in World Bank financed projects or as a consequence of those projects. Monitoring can work in the private export sectors. But to implement effective monitoring international organisations, ILO, UNICEF, and the World Bank must channel funding all the way to the grass roots level which is unfortunately not often the case.

However, as Congressman Smith, aptly noted during a recent hearing: human rights work is a lonely and difficult struggle. The supporter of child labour are still resistant to change. They have several arguments in favour of child labour.

The first one is that if children do not work, they will starve. This argument fails analysis. Children can avoid starvation by working a few hours a day for survival. But when the work amounts to 8 or 10 hours a day, in terrible conditions, at half the cost of what an adult would be paid for the same job, it is not work any more but child exploitation. Kailas Satyarthi, the founder of the South Asia Coalition of Child Servitude, pointed out that child labour is the cause of poverty, not the result. There are 55 million child workers in India while 55 million unemployed adults are looking for jobs.

The second argument is that if these children are prohibited from work, they will move to even more terrible conditions such as the sex industry. This argument is refuted by statistics. According to the latest and conservative estimate of ILO, there are 73 million children under 14 years of age who are being exploited in the world. But child labour experts think that there are more than 200 million. It is unlikely that all these children will move towards the sex industry if governments join together to ban child labour. The sex industry is not as profitable as many of the exports industries where child labour is in practice. It is also more visible and requires identifiable locations, mainly the red light quarters of cities, which makes it easier to monitor than the so-called traditional craft children factories which are spreading all over the developing world.

Finally, the third argument is a cultural one. Children have always worked in developing countries, and westerners do not understand this traditional cultural aspect of these countries. This argument does not hold water. Indeed, children were part of the labour force in artisanal and agricultural economies but it was within their families and the workload allowed time to play and to interact with other children. In comparison, today, children are being moved far away from families to toil in illegal factories. Furthermore, child labour increases with international demand in sectors where child labour was not prevalent previously. The seven-year-old children working 10 hours a day making soccer balls in the Pakistani factories are not part of a tradition but of the recent global exploitation of children to meet the international competition and demand for cheap goods.

These arguments, although clearly without merit, nonetheless have some impact. Global development institutions such as the World Bank deny responsibility for child labour and even maintain, as did one World Bank economist that a nation's economic viability correlates with the number of children in factories. The silence of the World Bank in face of this tragic trend is shameful.

US taxpayers, however, can take action in demanding that their taxes do not contribute to increases in child labour. Taxpayers should request their political representatives in Congress to support the International Child Labour Elimination Act which obliges the Bank to incorporate a child labour policy in its financed projects.

An analysis of several countries with serious child labour problems is instructive. In India, child labour is a national tragedy. In the state of Tamil Nadu in south India, the number of children who are working in exploited situations is estimated by UNICEF to be 1, 105,586. In the match and firework factories, there are about 50,000 working children between the age of 7 and 14 years where more than 50 per cent of India's matches and 70 per cent of India fireworks output are made. The children's main work consists of filling boxes and dipping sticks in chemicals. After several years of factory work, children suffer from various diseases. Neera Burra, a child labour expert, noted in her most recent book, ***Born to Work: Child Labour in India***, that the owners of factories prefer children over adults. Not only are the children cheaper but they do not complain as much. Child labour in the match factories of Sivakasi is carefully controlled by the owners who hire contractors to awake the children as early as 3 a m to 5 am. Because many children come from as far as 30 kms, the children are loaded on buses belonging to the factories. Contractors who transport the children are also the ones who make sure that no outsiders come to cause trouble.

In the lock factories of Aligarh, Uttar Pradesh, about 10,000 children daily toil in terrible conditions. According to Joseph Gathia, the executive director of the centre of concern for child labour, who has established an evening school for working children, 80 per cent of India's locks are made in Aligarh district. The children, who are between 6 and 12 years old, worked on

the bare ground for an average of 9 hours a day. They wear no protective devices such as masks, glasses or gloves; their bodies and faces are covered with dust to such an extent that it is not possible to see the white part of their eyes. To evade the provisions of the factories act, the lock industry has been smartly transformed into a 'cottage industry' with less than 10 workers on each site. Children are paid according to a piece-rate method. After a few years of toil, children suffer various diseases like asthma, bronchitis, TB, skin diseases, ear and eye problems.

In Himachal Pradesh, along the hilly roads of the Himalayas, children engage in manual work of road construction. As the children work, they breathe the polluted air caused by passing trucks, buses, and boiling tar. Yet, someone with very little money, Lama Gondup is trying to improve the lives of these children. No one agrees on the exact number of children working at cutting stones along the roads or working in quarries. According to the Census of India (1981), there are about 23,532, but local activists give a larger number.

In spite of this sad reality, without any child labour provisions, the World Bank is financing a project, with a IBRD loan of US $95 million for the construction of 800 km of major roads in Haryana state. No one can deny that roads must be improved in India, but it is certain that children be working on road construction activities as a result of this project.

In Rourkela, Orissa, Dr Patra, diretor of the Asian Workers Development Institute, estimates that there are about 300 children ranging from ages 8 to 15 who work behind the steel plant of Rourkela. The place looks like a living hell. Children hold iron hooks, or hammer to pick up burning pieces that they sell to subcontractors. They are paid on a piece-rate basis. The children work from 4 a m to 5 p m. They work outdoors in the burning sun and breathe the acrid smoke from the plant. There is no drinking water or toilets near by. Many of the children come from tribal families who have been displaced by the effects of modernisation. The plant management denies any responsibility for the working children; they are not employees and they are outside of the plant's boundaries. Patra mentioned also the mines in Orissa where the same facts are replayed: children are working in the backyards of the mines, officially the management can rest in peace, there are no children working in the mines.

According to the latest estimates from UNICEF and ILO, there are about 44 million working children in India. Indeed, the largest number of the world's working children are found in India. In Orissa alone, the numebr of children under 14 years of age who works in exploited situations is estimated by UNICEF to be 6,17,351. In their study on child labour in Cuttack city, the former capital of Orissa, B N Mishra and P L Mishra from the department of labour welfare, Utkal University in Bhubaneshwar, Orissa, reveal that the total population of child workers in Cuttack is 33,443 among whom 3,600 work in mining and quarrying and 1,500 work in construction. Most of the children work at least eight hours a day.

In spite of these facts, the World Bank is currently financing two important projects in Orissa in which child labour will be stimulated: first, the India-Orissa water resources consolidation project, which gives a loan of US $290.9 million to the government of India from IDA credit; and second, the coal sector environmental and social mitigation project which is granting US $500 million to Coal India to open or upgrade 33 mines in Orissa, Bihar, Madhya Pradesh and Maharashtra, and an IDA credit of US $50 million for financing environmental and social impact action programmes. In both cases, legitimate development needs are met but should it be at the expense of child labour? Little hands will be working in the construction of the Naraj barrage ('dam'). The barrage is going to replace old Naraj weir which has been damaged by the flood of 1982. It will be 940 metres long and would require 13,000 cubic metres of earthwork and 3,20,000 cubic metres of concrete. This will offer a good opportunity to destitute working children in Orissa who, write Mishra and Mishra, are known to work at cutting stone, brick making, canal digging, road construction. Tribal children will no doubt be found working in the backyard of the new mines of Coal India which is going to displace 10,445 persons (many of whom belong to the oldest tribes of India). A resettlement and rehabilitation policy and an indigenous peoples development plan are provided in the package deal. Coal India will provide employment for 18 per cent of the displaced persons and the remaining 82 per cent (7,549 persons) will be entitled to assistance for self-employment with the help of five NGOs selected by Coal India. The four states where the mines are going to be located are known for their large numbers of working children. Furthermore, child labour experts have found that the majority of working children are to be found among the displaced and migrant families at construction sites, brick-kilns and mines.

Not only do some World Bank-financed projects contribute to the growth of child labour but industries which rely on child labour are given as an example of success stories in a World Bank discussion paper. The fact that India has become the largest exporter of cut and polished small diamonds, is described as a success because, as noted by the authors, India's large pool of low cost artisans gives it a strong competitive advantage. No field study was made to verify who were some of these artisans. There are about 13,600 children below the age of 14 years old working in the gem polishing and diamond-cutting industries according to Neera Burra who pointed out in her book that child labour was not prevalent in these industries before the international demand for gems increased.

In the same World Bank discussion paper, the authors praise Bangladesh's successful garment exporting and the fact that about 90 per cent workers are female. But, according to Pharis Harvey, the executive director of the international labour rights education and research fund, there are about 3,00,000 children working in the Bangladesh garment manufacturers. These females, often girls eight years of age or less, work like slaves.

The Bank's South Asia external affairs' response has been that "project execution, however, is the responsibility of government agencies." The World Bank is in a state of denial about its responsibility in this regard. The Bank does not even comply with article 32 of the UN convention on the rights of the child which states that every child has a right "to be protected from economic exploitation." The Bank, which is aware of the problem of child labour is increasing its funding in early childhood education. Such funding is an excellent initiative but it must be extended to the middle school years to prevent the massive drop out of nine and 10 year olds from destitute families.

Solutions to end the growth of child labour in the world are not easy. Solutions have to be global and comprehensive in order to reach all levels of societies in which child labour is in use. Americans should support the courageous bi-partisan leadership of Congressman Smith and his co-sponsors and express their support for the International Child Labour Elimination Act. Let us hope that their efforts do not remain isolated in the political arena of Capitol Hill. By publicly acknowledging that child labour is a world evil and including this issue in their political agenda, both presidential candidates, president Clinton and Bob Dole can show the world how much they love children. Their respective solutions may differ, but taking a stand is better that non-commitment. Child labour deserves more attention from Americans because it affects them directly: taxpayers contribute to the World Bank-financed projects which promote export industries in the developing world at any cost, including child labour and which implement large infrastructure and energy projects which generate even more child labour. Child labour affects also the morally concerned consumers who do not know and cannot know which products are free of child labour.

Presidential candidates can convince the world that to a global crisis, a global response is needed. It will take a worldwide effort to fight child labour. Without the interest and intervention of the US the problem will not go away. Americans should stand up against the silent dehumanisation of globalisation. American leaders and international development organisations must take the lead to insure that the precious gift of childhood which is endangered for many of the poorest children in developing countries, be protected in every corner of the globe.

Jiang Zemin's India Visit

Alka Acharya

The almost exclusive focus, in our response to Jiang Zemin's presidential visit to this country, on the power equation and on China-Pakistan nuclear and missile collaboration and its implications for India and, correspondingly, the neglect of the commercial and economic potential of India-China relations – all these reflect our lack of a coherent, long-term China policy.

THE first every visit to India by a Chinese head of state in 47 years of India-PRC relations naturally generated a wide array of opinions and analyses, ranging from those who have hailed it as a historic visit to those who have written it off as yet another dismal demonstration of Indian diffidence or passivity and those who have pronounced the verdict that India has once again sold out to the Chinese. While these assessments obviously arise from specific sets of expectations and perspectives, there are some aspects which have not been sufficiently highlighted; indeed they have been virtually glossed over as by and large either irrelevant or inconsequential.

For a presidential visit, Jiang Zemin's arrival in India was somewhat downplayed; in overall terms, this was certainly a rather low key affair. The Chinese media gave far more coverage and prominence to Jiang's south Asia visit. Interestingly, the references in the Chinese media specified Jiang Zemin as the general secretary of the Communist Party of China (CPC) and not so much as the president of the PRC. This may provide an indication of the relative importance of Jiang Zemin in the domestic context. The transition to a post-Deng era in China appears imminent. As Deng Xiaoping's chosen man, with the additional qualification as chairman of the Central Military Commission (CMC), Jiang has been consolidating his position at the core of the third generation leadership. This seems to be supported by the outcome of the recent Sixth Plenum of the Fourteenth Central Committee of the CPC. Fresh from the APEC summit at Manila and a 90-minute meeting with Bill Clinton there, with his 'tough' speech at the 50th anniversary of the UN in New York last year still fresh, Jiang Zemin appears to be acquiring a firm external profile as "the man most likely to lead China into the twentyfirst century".

From the Indian point of view, the downplaying of the visit seemed to be the logical reaction of a diffident coalition government. In its desire to appear firmly in control, the Indian government appeared rather anxious to avoid any outburst of opposition or anti-Chinese demonstration, which would be a normal enough occurrence in a large democratic country. The visit had to be handled not just at the bilateral level but also, in a sense, at the domestic level – that is to say, due cognizance had to be given to the impact on and reactions from parliament, intellectuals/think tanks and the people. There seems to be a dual aspect to the general perceptions regarding China in India: while on the one hand, there seems to be admiration for the Chinese economic progress, on the other, there is a deep-seated suspicion of the Chinese motives. Thus, while India's China policy is characterised by a subordination of the territorial aspects to the economic, till the "time is ripe" for settlement, it has to steer clear of any impression that this country is bowing to the Chinese dictates.

The focus on the bilateral issues has tended to bypass the fact that the Chinese have a distinct regional understanding/dimension within which India-PRC relations are located. The Chinese president's visit was thus not just to New Delhi, Islamabad and Kathmandu in that order, but to the south Asian region, the first two stops being of equal duration. Whether this indicates merely the intention of an even handed approach to the region, it certainly makes no case for according India-PRC relations any primacy or special status. The reassurance, if any, was intended for Pakistan, since the changes in the Chinese attitude towards the problems of this region went, in a manner of speaking, against Pakistani interests. Consider the following: One, the PRC has been notably mild with regard to India's stand on the CTBT. Two, China voted against Japan, in support of India's bid for a non-permanent seat in the Security Council. Three, for some time now, the Chinese stand on the Kashmir issue has been undergoing a shift. During Jiang's visit, this change was stated clearly, with the hope that India and Pakistan would settle all their outstanding disputes through "amicable negotiations". What is more interesting is the statement Jiang made in Islamabad regarding the problems in the region generally, without specifically mentioning Kashmir. The customary diplomatic tribute that Pakistan has received from the PRC on virtually every occasion – arising out of their special relationship hitherto – which has been an important component of Pakistan's strat to score points against India, viz, the Kash issue, was given a miss on this visit. On contrary, Jiang Zemin advised the Pakista that in the interests of imparting norma to bilateral relations, controversial contentious issues should be "tempora shelved" or frozen, as it were, till appropriate time. In the meanwhile, it wo be more useful to get down to busin Pakistan must not have liked this at al

Now this is not only a complete turnaro on the Kashmir issue, but may well sig the beginning of a new era in China's so Asia policy. Further developments are nee to confirm this and one may speculate the reasons for this change, particularly the light of the stand that the US has tak But the other interesting thing about t position is that it echoes the stand that Chinese appear to have adopted with reg to the disputed Paracels and Spratly Isla in the South China Seas. There as well, approach seems to be characterised by lett matters stand on an 'as is where is' basi shelve the dispute and carry on with busine reduce tensions and revert to as normal sta to-state relations as possible. A very import component of the PRC's policy towa regional territorial disputes begins to ta shape. With this in mind, the recent propo by Jiang Zemin to Philippines presid Ramos to jointly develop parts of the Spra Islands (claimed by both) does not app very surprising or intriguing.

With such a background, had the visit India been a day longer than the other vi stop, or been accompanied by some m dramatic announcement such as t recognition of Sikkim as a part of India, t import/impact of the visit would have be far more profound. Ever since the 1960s t Chinese policy towards south Asia has be very clearly designed to trim the proportio of India's predominance in the region developing extremely cordial and clo relations with each of India's neighbou What is of greater significance is the Chine behaviour during crisis periods in t subcontinent. Take, for instance, Islamab where the Benazir government was oust recently. In Beijing's scheme of thing therefore, although the "friend of China" h been deposed, Sino-Pak ties are of t essence, no matter that it is a tempora government which entertains Jiang Zemi The argument that presidential visits, li nuclear blasts, are decided much in advan and cannot be changed at the last minu does not obscure the fact that there is definite message that is sought to be convey by both. And that message clearly is th while much is to be gained from improveme in relations, India is certainly not mo important than the others – or at any rate wi not be accorded greater importance.

The regional dimension in turn gets subsumed in the still larger global perspective which informs the Chinese worldview. The contours of the Chinese worldview were outlined in Jiang Zemin's toast at the welcoming banquet hosted by the Indian president: "... the world at this time is characterised by continued multipolarisation, more vocal calls for peace and development by nations and peoples, growing weight of economic factors in international relations, rising trends of resorting to consultation and dialogue rather than confrontation in settling international disputes and increasing unpopularity of power politics and hegemonism...".

While more exhaustive studies would be necessary, there is enough evidence to suggest that China has been facing a lot of pressure in its efforts to join the WTO and that indeed it has been conceding a lot more than is generally believed. The PRC's tough bargaining posture does mask the extent to which China has compromised on key issues of trade and investment and lowering of tariff barriers. Likewise, in the political sphere, China's unwavering opposition to what it considers interference in its internal affairs highlights the fact that on issues of human rights, political prisoners and democracy, it has been coming under a lot of pressure. The need for a broad forum, composed largely of developing countries, to face up to sustained political and economic pressure from the west, especially the US, is not new in the Chinese global policy. Its intensive interaction and building of contacts among the so-called third world countries has been geared towards that end. South Asia as well becomes an important part of this overall Chinese strategy to forge stronger links with the developing world. It may be recalled that five years ago, during Li Peng's visit, the joint declaration issued at the end cautioned against the "evolving international oligarchy" – a clear reference to US hegemonic behaviour in the wake of the collapse of the Soviet Union. While the argument here is not that a clear-cut 'united front' is being deliberately forged by China, but the developments do point towards an attempt at gathering support from countries with certain common concerns as they all march towards integration with the global economic organisations and institutions.

The visit was thus more in the nature of sustaining Sino-Indian ties that are clearly on the upswing, but the underlying reality is that it is not a relationship between equals, much as India would like it to be so. There is the weight of the humiliation of 1962, "outstanding problems left over from history", as every speech will unfailingly mention, the greater military might of China, its far superior economic progress and achievements and the inarguable greater international profile of the PRC. This does not add up necessarily to a picture of mutual suspicion and hostility. If anything, the bilateral talks are intended to remove precisely those concerns. The point is not whether India should have done this or that, but whether India is in a position to do this or that. Hardly any point is made by arguing that India has been taken for a ride by China. The cliche about the 'conniving dragon' is surely passe. So is the cliche of the two Asian giants pitted against each other in inevitable rivalry; they are wearing thin in the new world order. This is not to suggest that India should become complacent or defensive with regard to China. With all the arguments regarding India's potential power status, the fact remains that politically, economically or militarily there are definite limits to what it can achieve or wrest from China. Suspicions and fears are not annulled or removed in a decade or two. What does emerge, however, is the lack of a coherent, systematic and long-term China policy insofar as India is concerned.

There are many who have been disappointed with the achievements of Jiang's India visit, since most of the features of the main Agreement on Confidence Building Measures in the Military Field along the Line of Actual Control in the India-China Border Areas were included in principle in the 1993 agreement signed during prime minister Narasimha Rao's visit. It has been said that describing the Agreement as a virtual no-war pact is being overly optimistic since the stipulation in Article One of the Agreement that "neither side shall use its military capability against the other side" refers to the forces in the border areas. Critics also decry the Article which agrees to limit missiles on the border which they say will send the wrong signals all around, particularly in view of our stand on the CTBT. The position can justifiably be taken that there was nothing in the nature of a breakthrough on the boundary question and that simply redrafting some more safeguards into the 1993 agreement and managing border tension by some more demilitarisation leaves the critical issue untouched.

It is to be hoped that by shelving the "problems left over by history" and in the desire to make a fresh start, the lessons of history are not forgotten. No one would deny that the boundary question, given its rather, undefined nature, has to be tackled step by step. But then, it has to be tackled and there should be a long-term strategic perspective in which it has to be tackled and, more important, it has to be perceived as such. Presidential visits are important, useful and necessary on the long and winding road to normalcy – and it is obvious that when presidents come, they have to sign some agreements. One wonders though whether it needed a presidential visit to sign agreements on the Maintenance of Consulate General of India in Hong Kong or an India-China Agreement on Maritime Transport or Co-operation for Combating Drug Trafficking. The point however is made without any intention of slighting the value of the accords reached.

The virtual exclusive focus in the media on the power equation and the China-Pakistan nuclear and missile collaboration and its implications for India has led to a neglect of the assessment of the commercial and economic potential in the relations between India and China – which is also partly a reflection of the state of India's China policy. Total trade between the two has grown very slowly, and stands at a mere billion dollars annually. Apart from the constraints that are generally mentioned such as the competitiveness of Indian and Chinese trade and the limits of increasing economic interaction in hi-tech areas, the conclusion is inescapable that India has failed to capitalise on the current obsessive Chinese concern – economic development and ever increasing trade and investment. The single-minded devotion with which the Chinese have been pursuing economic reforms for the last two decades, and the quantum leaps in foreign trade, especially border trade with its other neighbours, brings India's rather tardy approach into sharper focus.

In the 100-strong entourage Jiang Zemin brought with him, more than half were persons from the business and trade sector. The Chinese certainly appear to be far more dynamic and purposeful in this regard, whereas the Indians seem to be just waking up to the advantages of business. How much time will it take to really get up and get going is anybody's guess. Of course, this does beg the question whether booming business ties would really change or affect the political relationship, which would continue to be dogged by the controversial areas which the government hesitates to tread. Insofar as this approach once again underlines the necessity of a step-by-step approach to the solution of at the moment intractable problems and to the extent that in this process, over a period, substantial business and not just peace on the border will be at stake, there seems to be the glimmerings of a strategy – howsoever unsatisfactory.

BANK OF CEYLON

MADRAS BRANCH

BALANCE SHEET AS ON 31st MARCH 1996

Particulars	Schedule No	As on 31.3.96 Rs.
LIABILITIES		
Assigned Capital	1	13,89,60,000
Reserves and surplus	2	33,59,527
Deposits	3	2,78,80,792
Borrowings	4	1,41,94,091
Other liabilities and provisions	5	1,34,85,358
TOTAL		19,78,79,768
ASSETS		
Cash and balances with Reserve Bank of India	6	2,01,07,890
Balances with banks and money at call and short notice	7	19,90,281
Investments	8	65,40,300
Advances	9	15,54,74,933
Fixed Assets	10	70,31,198
Other Assets	11	67,35,166
TOTAL		19,78,79,768
Contingent liabilities	12	8,89,90,054
Bill for collection		80,86,749

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31st MARCH 1996

	Schedule No	Period Ended 31-3-96 Rs.
I. INCOME		
Interest earned	13	91,36,629
Other Income	14	64,71,086
TOTAL		1,56,07,715
II. EXPENDITURES		
Interest expended	15	14,84,936
Operating expenses	16	67,53,012
Provisions and contingencies		40,10,240
TOTAL		1,22,48,188
III. PROFIT/LOSS		33,59,527
IV. APPROPRIATIONS		
Transfer to statutory reserves		10,08,000
Transfer to other reserves		NIL
Transfer to Government/ Proposed dividend		NIL
Balance carried over to Balance Sheet		23,51,527
TOTAL		33,59,527

As per our report of even date

For PRICE PATT & CO.
Chartered Accountants
Sd/-
M. NAGANATHAN
PARTNER

Madras: July 3, 1996

For BANK OF CEYLON
Sd/-
N V MOORTHY
COUNTRY MANAGER

BANK OF CEYLON

MADRAS BRANCH

SCHEDULES FORMING PART OF BALANCE SHEET

	As on 31-3-96 Rs.
Schedule 1—Assigned Capital	
I. The amount brought in by bank by way of start-up capital	13,89,60,000
II. Amount of deposit kept with the RBI under Section 11(2) of the Banking Regulation Act, 1949	—
TOTAL	13,89,60,000
Schedule 2—Reserves and Surplus	
I. Statutory Reserves	
In terms of Section 17 of the Banking Regulation Act 1949 made during the year	10,08,000
II. Capital Reserves	NIL
III. Share Premium	NIL
IV. Revenue and other Reserves	NIL
V. Balance in Profit and Loss Account	23,51,527
TOTAL (I, II, III, IV & V)	33,59,527
Schedule 3—Deposits	
A.I. Demand Deposits	
(i) From banks	17,01,817
(ii) From others	79,48,806
II. Savings Bank Deposits	44,18,329
III. Term Deposits	
(i) From banks	—
(ii) From others	1,38,11,840
TOTAL (I, II & III)	2,78,80,792
B. (i) Deposits of branches in India	2,78,80,792
(ii) Deposits of branches outside India	NIL
TOTAL	2,78,80,792

	As on 31-3-96 Rs.
Schedule 4—Borrowings	
I. Borrowings in India	
(i) Reserve Bank of India	NIL
(ii) Other Banks	NIL
(iii) Other institutions and agencies	95,52,474
II. Borrowings outside India	46,41,617
TOTAL (I & II)	1,41,94,091
Secured borrowings included in I & II above-Rs. NIL	
Schedule 5—Other Liabilities and Provisions	
I. Bills Payable	12,96,112
II. Inter-office adjustments (net)	39,26,510
III. Interests accrued	6,69,131
IV. Others (including provisions)	75,93,605
TOTAL	1,34,85,358
Schedule 6—Cash and Balances with Reserve Bank of India	
I. Cash in hand (including foreign currency notes)	31,21,575
II. Balances with Reserve Bank of India	
(i) In Current Account	1,69,86,315
(ii) In Other Accounts	—
TOTAL (I & II)	2,01,07,890
Schedule 7—Balances with Banks and Money at Call and Short Notice	
I. In India	
(i) Balance with Banks	
(a) In Current Accounts	4,79,857
(b) In other Deposit Accounts	NIL
(ii) Money at call and short notice	
(a) With banks	NIL
(b) With other institutions	NIL
TOTAL (i & ii)	4,79,857
II. Outside India	
(i) In Current Accounts	15,10,424
(ii) In other Deposit Accounts	NIL
(iii) Money at call and short notice	NIL
TOTAL (i, ii & iii)	15,10,424
GRAND TOTAL (I & II)	19,90,281

BANK OF CEYLON

MADRAS BRANCH

SCHEDULES FORMING PART OF BALANCE SHEET

	As on 31-3-96 Rs.
Schedule 8—Investments	
I. Investments in India in:	
(i) Government Securities	65,40,300
(ii) Other approved securities	NIL
(iii) Shares	NIL
(iv) Debentures and Bonds	NIL
(v) Subsidiaries and/or joint ventures abroad	NIL
(vi) Others	NIL
TOTAL	65,40,300
II. Investments outside India in	
(i) Government securities (including local authorities)	NIL
(ii) Subsidiaries and/or joint ventures abroad	NIL
(iii) Other investments (to be specified)	NIL
TOTAL	NIL
GRAND TOTAL (I & II)	65,40,300

	As on 31-3-96 Rs.
Schedule 9—Advances	
A. (i) Bills purchased and discounted	3,74,95,873
(ii) Cash credits, overdrafts and loans repayable on demand	11,53,47,592
(iii) Term loans	26,31,468
TOTAL	15,54,74,933
B. (i) Secured by tangible assets	7,29,84,373
(ii) Covered by bank/ government guarantees	NIL
(iii) Unsecured	8,24,90,560
TOTAL	15,54,74,933
C. I. Advances in India	
(i) Priority Sectors	NIL
(ii) Public Sectors	NIL
(iii) Banks	NIL
(iv) Others	15,54,74,933
TOTAL	15,54,74,933
II. Advances Outside India	
(i) Due from banks	
(ii) Due from others	
(a) Bills purchased and discounted	NIL
(b) Syndicated loans	
(c) Others	
TOTAL	NIL
GRAND TOTAL (C.I & C.II)	15,54,74,933

	As on 31-3-96 Rs.
Schedule 10—Fixed Assets	
I. Premises	NIL
II. Other fixed assets (including furniture and fixtures)	
At cost as on 31st March of the preceding year	NIL
Additions during the year	74,42,222
Less	
Depreciation to date	5,91,824
TOTAL	68,50,398
Capital work in progress	1,80,800
TOTAL (I & II)	70,31,198

	As on 31-3-96 Rs.
Schedule 11—Other Assets	
I. Inter-office adjustment (net)	NIL
II. Interest accrued	3,45,240
III. Advance Income-tax	25,30,000
IV. Advance Interest Tax	1,65,000
V. Stationery and stamps	1,36,138
VI. Non banking assets acquired in satisfaction of claims	NIL
VII. Others	35,58,788
TOTAL	67,35,166

	As on 31-3-96 Rs.
Schedule 12—Contingent Liabilities	
I. Claims against the bank not acknowledged debts	NIL
II. Liability for partly paid investments	NIL
III. Liability on account of outstanding forward exchange contracts	7,64,60,024
IV. Guarantees given on behalf of constituents:	
(a) In India	1,25,30,030
(b) Outside India	NIL
V. Acceptances, endorsements and other obligations	NIL
VI. Other items for which the bank is contingently liable	NIL
TOTAL	8,89,90,054

BANK OF CEYLON

MADRAS BRANCH

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

	Period Ended on 31-3-96 Rs.		Period Ended on 31-3-96 Rs.
Schedule 13—Interest Earned		**Schedule 15—Interest Expended**	
I. Interest/discount on advances/bills	69,52,250	I. Interest on Deposits	14,51,716
II. Interest on investments	5,79,249	II. Interest on Reserve Bank of India/inter-bank	33,220
III. Interest on balances with Reserve Bank of India and other inter-bank funds	16,05,130	III. Others	—
IV. Others	—	TOTAL	14,84,936
TOTAL	91,36,629		
		Schedule 16—Operating Expenses	
Schedule 14—Other Income		I. Payments to and provisions for employees	14,13,704
I. Commission, exchange and brokerage	12,63,066	II. Rent, taxes and lighting	12,20,226
II. Profit on sale of investments *Less*: Loss on sale of investments	NIL	III. Printing and stationery	1,35,243
		IV. Advertisement and publicity	2,94,459
III. Profit on revaluation of investments *Less*: Loss on revaluation of investments	NIL	V. Depreciation on Bank's property	5,91,824
		VI. Director's fees, allowances and expenses	—
IV. Profit on sale of land, buildings and other assets *Less*: Loss on sale of land, buildings and other assets	NIL	VII. Auditors' fees	40,000
		VIII. Law charges	—
V. Profit on exchange transactions *Less*: Loss on exchange transactions	47,66,141	IX. Postages, telegrams, telephones, etc.	12,13,461
		X. Repairs and maintenance	92,101
VI. Income earned by way of dividends etc. from subsidiaries/companies and/or joint ventures abroad/in India	NIL	XI. Insurance	28,010
		XII. Other expenditures	17,23,984
VII. Miscellaneous income	4,41,879		
TOTAL	64,71,086	TOTAL	67,53,012

BANK OF CEYLON

MADRAS BRANCH

Schedule 17—Notes forming part of Balance Sheet and Profit and Loss Account as at March 31, 1996

I. Significant Accounting Policies

1. General

   The accompanying financial statements have been prepared on historical cost basis except as otherwise stated.

2. Transactions Involving Foreign Exchange

   a) Monetary assets and liabilities including outstanding Forward Exchange Contracts, are converted into Indian Currency at the year end rates as advised by FEDAI and the resultant profit or loss is also accounted for as per FEDAI Guidelines.

   b) Income and Expenditure items have been translated at the exchange rates prevailing on the date of transactions.

3. Investments

   The Investments have been bifurcated into permanent and Current category as per Reserve Bank of India guidelines. Permanent Investments have been carried at cost and wherever cost exceeds redemption value, the premium is amortised over the period of maturity.

   Investments in current category are carried at cost or market value which is lower and wherever market value is not available, guidelines recommended by Reserve Bank of India are followed.

4. Advances

   All the advances have been classified as per the Asset classification norms prescribed by Reserve Bank of India.

5. Fixed Assets

   a) All the fixed assets have been accounted for at historical cost as reduced by depreciation written off.

   b) Depreciation on Fixed Assets have been provided at 20% p.a. on straight line proportionately from the date of purchase.

6. Revenue/Expenditure Recognition

   a) Interest income on all advances other than non-performing assets is recognised on accrual basis.

   b) Commission and Exchange are accounted on cash basis and Brokerage is accounted on accrual basis.

   c) Expenditure is generally accounted on accrual basis.

7. Net Profit

   The net profit disclosed in the Profit and Loss Account is after provision for Income-tax and Interest Tax in accordance with statutory requirements.

II. Notes on Account

1. The Branch commenced its operations with effect from 30th October 1995. In terms of the RBI guidelines regarding Prudential Norms and Classification of Asset, all the loans and advances have been treated as Standard Assets and as a result the Income therefrom have been accounted on accrual basis.

2. There are only two investments made in Government securities and they have been bifurcated into 'Permanent' and 'Current' categories in the ratio of 23:77. The Investments have been valued as per RBI guidelines.

3. All the monetary assets expressed in Foreign Currencies including Forward Exchange contracts have been converted as per FEDIA guidelines in preference to Accounting standard 11 issued by the Institute of Chartered Accountants of India.

4. The Inter-Office transactions between the branch and Head Office and other foreign branches are netted off and grouped under "SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS".

5. The Bank has been taking steps to register with the Provident Fund department. Presently the contributions made by the Bank and Indian employees are kept in a separate Current Account in the Bank itself. No deductions on account of provident fund is made from the salaries of Sri Lanka employees.

6. No provision for gratuity is made since none of the employees have completed continuous service of five years in India.

7. Depreciation on all fixed assets has been provided @ 20% per annum under straight line method proportionately from the date of purchase.

8. As per RBI letter Ref. DBOD(M) No. 515/02.05.25/95/96 dated 23 August 1995 with respect to assigned capital, a sum of Rs. 13,89,60,000 has been shown under SCHEDULE 1 – SHARE CAPITAL – item (I). As per the same letter a sum of Rs. 15 lakhs out of the aforesaid amount, has to be maintained either in cash by way of deposit with RBI or in the form of unencumbered approved securities as required u/s 11(2)(b) of the Banking Regulation Act 1949. The Bank has purchased 13.85% Government of India Bonds 2000 for Rs. 15 lakhs for the above purpose and this has been classified under permanent category of Investments.

9. Since this is the first year of the Branch's operation, no previous year's figures have therefore, been given.

BANK OF CEYLON

MADRAS BRANCH

Auditors' Report

1) We have audited the attached Balance Sheet of Bank Of Ceylon, Madras Branch as at 31st March 1996 and the Profit and Loss Account for the period ended on that date, annexed hereto.

2) The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the third schedule to the Banking Regulation Act, 1949.

3) On the basis of the audit indicated in paragraph 1 above we report that:-

Forward Exchange Contracts have been revalued as per FEDAI guidelines and resultant Profit or Loss is also accounted for in the books of Accounts, which is not in accordance with the Accounting Standard 11 issued by the Institute of Chartered Accountants of India.

4) Subject to our observations in Para 3 above, we further report that;

a) We have obtained all the information and explanation which to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory.

b) The transactions of the branch which have come to our notice have been within the powers of the Bank.

c) In our opinion, proper books of accounts as required by law have been kept by the branch so far as it appears from our examination of those books.

d) The Balance Sheet and Profit and Loss Account of the Bank dealt with by this report, are in agreement with the books of account.

e) In our opinion and to the best of our information and according to the explanations given to us, and as shown by the books of the bank;

1. The Balance Sheet read with the notes on accounts is a full and fair Balance Sheet containing necessary particulars and is properly drawn up so as to exhibit a true and fair view of the affairs of the Bank as at 31st March 1996.

2. The Profit and Loss Account read with the Notes and Accounts shows a true balance of the profit for the period ended on that date.

For PRICE PATT & CO
Chartered Accountants
Sd/-
(M. NAGANATHAN)
PARTNER

Madras: July 3, 1996

REVIEWS

Colonialism and Industry in South India

S Ambirajan

Colonialism, Chemical Technology and Industry in Southern India 1880-1937 by Nasir Tyabji; Oxford University Press, Delhi, 1995; pp x+242, Rs 395.

ECONOMIC history does not seem to be a favoured sub-discipline for our bright economists They prefer to chase the phantoms that dart in the blackboards or attend to justifying/mystifying/berating current economic policy concerns in a historical vacuum. If at all economic history catches their attention, it is only to secure some time series data and torture them sufficiently in their computers to make them confess to a few neoclassical truths. There are other votaries of this sub-discipline who submerge and mangle the whole thing in a mish-mash of ideas from Gramsci, Derrida, Habermas, Althusser, Foucault and the rest. Given this climate, it is a welcome surprise to come across Nasir Tyabji's level-headed foray into the economic past of south Indian industry during the colonial period. Tyabji had already established himself as an authority on Indian political economy through his many scholarly papers and his fine survey *The Small Industrial Policy in India* before the completion of this work which confirms his position as a careful scholar who can fuse economics and history to explain India's recent past in a meaningful way.

If we discount Britain, almost all the developed industrial nations achieved their economic supremacy roughly during the half century preceding the first world war. Again a significant element in the industrialisation process was the part played by the chemical industry during this period. The intriguing question is: Why did India not achieve industrialisation during this period? For south Indians a further query: Why did the south lag so much behind western and eastern India? What could be the reason for the non-development of chemicals-based industrialisation notwithstanding the ample supply of the necessary raw materials? These are extremely difficult questions because even the much easier 'Why did Industrial Revolution occur in Britain?' has no definitive answers despite two centuries of investigation by renowned scholars in three continents. The issue here is all the more complex: why did certain events not occur? Monocausal explanations for the existence or otherwise of modern industrial development cannot lead us to any clear understanding because it is essentially a social phenomenon with many contradictory forces acting and reacting to produce a dynamic process. All that can be achieved is clarifying the issues, ferreting out facts, laying out evidence, making tentative suggestions and identifying directions where explanations may be sought. Certainly not unassailable causal connections as evidenced by the failure of the 'Cliometric historians' to solve all historical riddles via the route of number crunching.

The merit of Tyabji's work is that it does not pose grand unanswerable questions. Neither does it want to dazzle the reader with a complex set of analytical *pot-pourri*. The objective is modest, as he says in his introduction, his intention is to examine major developments of the industrialisation process encountered in Madras and look at the factors underlying them. The experience of Madras with its pre-independence concentration on textile industry and post-independence emphasis on transportation comes as a surprise because just as Mumbai's industrialisation was cotton-based and Calcutta's manufacturing depended on jute, Madras should have developed chemical-based industries in view of its oilseeds production. A perceptive observer of the south Indian economy, Gilbert Slater, had asserted as early as 1917 that "the great industry for which south India is peculiarly qualified is the oil industry". The puzzle is all the more because the government of the Madras Presidency took more initiatives to develop its industrial potential than the other two presidencies. There is besides the behaviour of the three major princely states, Travancore-Cochin, Mysore and Hyderabad, which are part of the southern economic landscape though with different modes of political decision-making.

There are in all six loosely connected chapters each almost a self-contained essay. The opening chapter covers a vast ground at a general level to give a broad-brush picture of the socio-economic changes that took place since the 1880s, the consequences for the development of a political class, relationship between different economic interest groups and the nature of industrialisation process until the first world war. In the following chapter, Tyabji gives a detailed picture of the origins of chemical-based industrialisation in southern India. The role chemicals play in the development of economies is quite complex. A large variety of chemicals have been used by all early civilisations including our own. Alcohol, dyes, alum, saltpetre, mercury, acids and alkalis have been used since time immemorial although until the medieval ages without fully comprehending them. Much knowledge of chemicals that the west received were originally from Arab/Muslim alchemists like Al Jabir and Al Razi. Indians and Chinese had understood the chemicals even before the Arabs did. But all these civilisations used chemicals without a chemical science. It was with the development of chemistry as a science in the 18th century and its offshoot, chemical technology in the 19th century that enabled the west to jump far ahead in using chemicals in a large way to industrialise their countries. This was clearly understood by key Madras officials like Chatterton and Nicholson who made attempts to convert the traditional use of chemicals by the infusion of theoretical and practical knowledge of applied chemistry to manufacture things scientifically. Among the key available raw materials were oilseeds and copra, and considerable efforts were made to create a viable industry based on them. Tyabji has analysed all these efforts in great detail and has indicated the results dispassionately. On the one hand, a combination of one set of circumstances helped copra-based industries like soap, whereas another set of factors did not have the same positive effect for other oilseeds. The fortunes of other chemical industries with special emphasis on the printing ink industry during the inter-war period is taken up in chapter 4. Textile and sugar industries are examined in chapter 3 and chapter 5 looks at the light industry in the small-scale and cottage sector. The final chapter concerns itself with the second war period.

The moral of this story is very clear. There are no simple answers to complex problems that have evolved over a long period under a shifting environment. Industrial revolution is not an automatic process and can occur only if a favourable concentration of circumstances is at hand. South India during this period had some favourable factors and many inhibiting forces. Supply factors, demand factors, problems of technology, entrepreneurial behaviour, contradictory interests of the main economic players, international developments, seemingly favourable but really a confused and at times contradictory government policies, and above all the undoubted fact of a colonial regime with its unstated but clear orientation towards securing economic advantages for the 'Mother' country all acted and reacted to produce a combination of circumstances which prevented large-scale industrialisation of south India.

The reader must be warned that this is not a contribution to the economic history of particular industries as such. There is no attempt made here to compute estimates of output, investment, labour force and other economic variables. While it is appropriate that Tyabji has taken south India as a whole for his study, it would have been interesting if he had extended his coverage to look at the fortunes of industrial development in French India for a comparative analysis. Pondicherry had at the beginning of the first war five cotton mills and one iron-rolling-cum-engineering works. All of them enjoyed the advantage of free trade with British India and a protected market in French colonies such as Indo-China and Madagascar.

Tyabji has set before specialists and generalists alike a wealth of economic information collected laboriously from the Tamil Nadu Archives and elsewhere. The value of this book lies in its documentation of the impact of government policy and examination of the political economy angle of the process of industrialisation. In sum, it is a sound contribution that will increase our understanding of the south Indian economy during the first four decades of this century.

Creating Space for Change

T V Sathyamurthy

Grassroots Horizons: Connecting Participatory Development Initiatives East and West edited by Richard Morse, Anisur Rahman and Kersten L Johnson; Oxford and IBH Publishing Company, New Delhi, 1995; price not stated.

THE steady erosion of democratic practice in post-colonial south and south-east Asia has been a characteristic feature not only of regimes in which military dictatorship usurped civilian political power of the state, but also of governments that have claimed to observe constitutional proprieties and to derive their legitimacy from appropriate electoral institutions. In all countries of south and south-east Asia different brands of undemocratic governance have struck root during the last four or five decades.

Yet, during the same period, steady pressure has been exerted by the mass of the people in the direction of evolving democratic practices in their quotidian life and in the areas of activities immediately affecting their livelihood and their culture. Invariably, the tension generated by people at the base of society becoming increasingly aware of their civil, democratic and human rights has been reflected in attempts by the elites (and, on their behalf, by governments) to centralise power and to intensify coercive measures in order to extract ever increasing surplus at ever diminishing cost from the poorest sections of the society.

In the societies of the so-called 'developing' or 'underdeveloped' world, the main internal contradiction is between the centralising agencies of state power and their institutionalisation on the one hand, and on the other, a rising political consciousness among the sections of society (rooted in the localities) that have to bear the brunt of the concentration of power in the bureaucratic, police, military and political-executive wings of government. The structures of power have shown an insatiable thirst for control. In response to this urge, the mass of the people has developed ingenious forms of civic political resistance focusing attention on social problems of everyday life that they face as a political community. Participatory democracy and democratic participation have come to occupy ever larger space in the lives of oppressed peoples – in India, for example, these include agricultural workers and poor peasants, the urban poor, urban unemployed and urban workers, dalits, OBCs, minority communities (especially Muslims), adivasis and women.

Intellectual and academic critiques of the post-colonial state have, until recently, revolved round broadly radical liberal or some form of Marxist evaluations of its oppressive and coercive characteristics and of its dedication to the task of promoting the interests of the national and comprador bourgeoisie, the commercial petit bourgeoisie, the rural rich, and the 'liberal' professions. A significant feature of all these critiques has been their distance from 'democracy', with the connotation of the mass of the people being at the centre of political action as participating agents of change. During the last 25 years, people's resistance to harmful government policies, in a number of different socio-political economic and environmental contexts, has largely overtaken the concern of intellectuals and academics for deepening and extending the roots of democratic actions.

However, a rich vein of analytic and programmatic insights can be gleaned from a small number of theoretical practitioners who have left an intellectual legacy of democratic thought and action of prodigious proportions. The fact that John Dewey, foremost among the political educational and experimental philosophers of democracy during this century, was an American has been somewhat unfortunate. It does not come naturally to those deeply concerned with expanding the role of the community of ordinary people in day-to-day political decision-making, as a means of advancing democracy, to seek inspiration from a citizen of the most determined and formidable imperialist power in modern history. Yet, it is a fact that Dewey (unlike sociologists of affluent communities such as Dahl) is the most systematic thinker to date on the nature of democracy, its problematic character, and the ways and means by which its dynamic can be realised by every individual and community.

In the aftermath of the creative upheavals of the 1960s throughout the world, a number of contemporary thinkers and activists in the spheres of democracy in politics, education and other areas of life have played influential roles in promoting a new world view of social and political life anchored in democratic ways of goal-setting, policy-making and participation in the lives of communities. The work of contemporary philosophers of democracy and democratic activists owes much to the inspiration provided by the work of Dewey and Peirce, his philosophical predecessor.

Systematic analytical treatment of the relationship between the electoral, substantive and participatory aspects of democracy (in general as well as in the Indian political context) is thin on the ground. Students of politics tend to concentrate on these closely inter-woven strands in isolation from one another rather than as integral parts of the same phenomenon. The distinction I have in mind here is between: (1) Elections as constituting the most elementary and necessary but by no means sufficient condition for the functioning of an effective democracy; (2) substantive democracy constituting opportunities for the people to act institutionally in times of crisis in order to remove threats to the constitutional guarantees of democratic choice (e g, after the Internal Emergency); and (3) participatory democracy, which goes beyond the institutional confines into the more complex terrain of the mass of the people taking part in politics in order at least to influence and preferably to play an active role in the shaping of public policy. The tension between the three waves of democratic political activity at the level of the mass of the people – viz, electoral, substantive and participatory – is further heightened by the submergence of large segments of rural and urban population below the poverty line, with struggle as the only means by which they can make their voices heard. The order of magnitude of the sheer numbers involved renders this an all but insurmountable problem.

Grass Roots Horizons, in a literal sense, and the book of that title under the joint editorship of Richard Morse, Anisur Rahman and Kersten L Johnson, lie at the meeting point between what democratic activists practise as politics on the ground and how (individually, collectively, and through facilitating organisations, generally non-governmental in character), and those who theorise about democracy as the most creative productive and least socially and economically exploitative of the alternatives available in politics. The book embodies a vision that is at once strategic and practical. It combines the fruit of democratic action as gleaned in concrete contexts with intellectual generalisations and reflection on the wider implications of democratic behaviour. It has addressed the question of method in general and comparative method in particular by drawing together experiences from widely differing circumstances. It is based on exchanges between members of a workshop who have conscientised themselves in an open manner and also made a serious effort to admit the reader into their thought processes. It is certainly a path-breaking effort the seminal character of which is eminently matched by its attention to the why and the wherefore of evolving sound working democratic practices and procedures in ordinary life. Above all, it puts politics of a mutually respecting kind at the heart of its inquiry.

E M Forster's famous injunction "Only connect" is hard to put into practice, but 'connecting' does enrich our understanding of the process of participation more than any other approach. This book is about 'connecting'. It begins with a down-to-earth account of the editors' reflections on their experience of the workshop. The idea of a workshop arose out of an intensive project "together with communities in Bangladesh, Bhutan and Nepal in participatory action research for rural development and energy planning" (p 4), in which the editors, among others, had taken part. The workshop, a ten-day event, brought together participants who work actively with and have won the trust of disempowered, impoverished communities; they were drawn from primary organising groups, and different levels and durations of experience of working with individuals and communities of disadvantaged/marginalised peoples. A third of the workshop members were selected for their academic and professional involvement in such work.

The workshop on 'People's Initiatives to Overcome Poverty' was appropriately set in Honolulu (east-west centre) where the people belonging to the Hawaiian nationality have been engaged in a protracted struggle to regain their rights from the imperialist conquerors from the mainland. The organisers and participants, representing a wide variety of backgrounds, worked to create "an open decision process in the organisation and conduct of the meeting". Each participant thus had her/his own field to speak from. It served both as a vantage point of one's own experience as well as of comparison and contrast with the fields of other contributors. And the issues arising out of different experiences constituted another vital dimension of any potential consensus that might evolve out of the processes of converging and diverging, revolt and bonding.

The substantive base for the task attempted in the workshop was provided by 15 case profiles representing major experience in participatory action to overcome poverty in India, the Philippines, the US, Canada, Thailand, and Bangladesh. In the Indian case, for example, Varun Vidyarthi focused on the root cause of poverty. To view poverty from a purely economic angle without tackling the dependence trap in which the poor are caught was counterproductive. Structural factors were important and struggles against poverty necessarily involved the development of alternative (in the case of *Manovadaya*, 'dharma-centred') institutions.

The report of each field worker evoked lively responses from others with different experiences. The dynamic of the interaction is brought out in a dramatic, an almost Socratic, manner in which participants raised questions linking their different field-based and issue-centred experiences, and identified resonances between them. To enable the readers to sample the discussions in the workshop, I quote here one of the many remarkable exchanges following from the account of the various projects at Waipa on the island of Kaua'i aimed at arousing people's political consciousness of exploitation and deprivation:

> Puanani: But why is *poi* [an Hawaiian staple] so expensive?
> Syed: Hawaiian culture, as you say, values sharing. Here we have Filipinos, Chinese, Caucasian. Where do you draw the line? What are the linkages, coalitions?
>
> Danelle: We face this question every day. Outside people come in. For example, an architect from the mainland. A whiz. We have helped him. We don't love other people any less, but feel we have to have control.
> Puanani: Princess Pupule, who some thought to be crazy, said 'Give away fruit, but hang on to the root'. This is an incredibly difficult question. Doesn't sharing extend consciousness? Is there a link between being racist and preservationist? Not a line, a sense, a feeling. If I don't like what is being said, I would leave. For other people there is no line. When you feel respect, you give respect back.
>
> Tony: That is one of the best answers I have heard (pp 40-41).

Building on the intensive discussion of the workshop, a synthesis statement was formulated. This embodied "middle level generalisations" on (i) goals and direction, (ii) analysis of the problems, and (iii) scope and strategies for action. The methodology of the workshop was unique. Substantive material gathered by different workers – activists, academics, and catalytic agents in the form of organisations with newly conceived remits – discussed in a psychologically/emotionally related atmosphere which placed a premium on democratic openness (*a la* the Deweyan paradigm), has not only enlivened the book but also enriched the quality of its contribution to our understanding of development. It is a relief to come across a book conceived and brought forth in the contemporary American academic milieu that has refrained from beating the drum and blowing the trumpet of 'good governance' (whatever that may mean), and has unreservedly centred itself in the lives of the poor, the marginalised, the disempowered and the disinherited of the world.

Parts II, III and IV deal with the field material of the participants in the light, respectively, of the themes of identity and solidarity; building spaces to transform the structures; and transformations the compass round. Part II consists of six chapters based on work in the Philippines (on the role of the foreign missionary), Labrador and Newfoundland (on single mothers uniting against poverty), Thailand (on the identity of the deaf and the paradox of difference), and Bangladesh (two chapters: one on initiatives in cultural renewal and actions based on grass roots communication; and the other on an alternative development programme with a radically re-defined role for the state based on practice preceding theory and not the other way round). The general conclusions of Part II emphasise the unifying role played by identity, awareness and joint action. When they are suppressed they lead to paralysis. When they are activated and awakened they show 'life building strengths'. The editors reflect on the discussions aroused by the material under the general headings of "facilitation, insider-outsider relations, autonomy of local groups" and, significantly, of the stimulus provided by the success of these arousals for widening and deepening participatory action.

Starting with editorial reflections on the task of creating spaces in order to change the structures (people-oriented 'knowledge structures' that respect culture, to replace or contend with received hegemonic ones that ride roughshod over culture), the four chapters of Part III deal with (a) the successful innovative LAKAS-ODISCO movement's approach to sustainable and holistic development; (b) the development of self-reliance among the rural poor in Uttar Pradesh

(*Manovadaya* acting as a facilitator in the field); (c) the case of Evergreen State College as an example of a new model of higher education based on a native American community-determined programme; and (d) an imaginative report of an American on her intellectual and epistemological Odyssey in search of a new paradigm of social change necessitating coalition-building in diversity, and the problems involved in networking with American groups in order to build bridges with the people of Thailand (in this example) that cut across imperialist prejudices. Of the issues that the editors draw out of this section, the most interesting is that relating to the "enigma of retaining the solidarity that is face-to-face, but building coalitions on a larger scale that still retain the essence of that trust, of those purposes, and can therefore really be empowering against the larger structures" (p 265). The main theme of Part III is the strategy that is best suited to participatory development, and it is in this sense that the editors deal with issues relating to counter violence versus non-violence, rights, and autonomy.

Building directly on issues developed at the Rio de Janeiro summit, the contributors to Part IV focus on (i) the role of NGOs in Bangladesh with special reference to the environment and democratic processes; (ii) an account of the behind-the-scenes work involved in the 'Forests for Life' project in Thailand connecting together, in its designing, villages, and grass roots teachers and researchers; (iii) a discussion, on a global level with a focus on more equitable or less inequitable 'terms of trade' in food between the north and the south, of the requisites of "locally based, ecologically sound, and socially innovative development"; and (iv) a statement of "some values and principles underlying socially just, sustainable development". The 'editorial openers' to Part IV attempt to deal with the importance of changing the terms of discourse from poverty reduction to universalisation of equity, and of the need to move inward in the large spheres of the world (east, west, north and south) on the as yet uncharted journey of recovering control over assets (i e, natural, social and ecological assets that have been mortgaged to rapacious developers, prospectors and guzzlers of capital). Noticeable throughout the discussion, sometimes as an undercurrent and at others in a more self-conscious sense, is a tension between philosophical and theoretical assumptions on the one hand and on the other the primacy or 'working within a particular context' in the awareness that the sets of questions and sets of action will vary from context to context, level to level.

It is only appropriate that Puanani Burgess, a poet and host to the workshop with a heart even larger than her head, should have the last word on the transformation in which five and a half years of co-operation resulted:

> In reflecting back upon those days, I have concluded that there is a deep place, where we seldom visit and are seldom asked to visit or act out within the context of a conference or workshop, where we as participants in this workshop had to go in order to find common ground and to be able to be productive during these days we had to be together. This is the place where our true values live (pp 370-71).

It is hard to exaggerate the merits of this innovative project. This book is one of the very few in the field of development studies which puts the people at the heart of its subject matter. Its methodology is refreshingly original and multi-disciplinary, with great depth and potential. The project concentrates on the task of gaining an understanding of the concrete that is at once theoretically enriching and practically motivated. Its texture is vivid with different deeply dyed colours that leap out to the eye. Implicit in the approach of the participants and the editors is an appreciation of the need for an analytical shift from a paradigm of power centred in the institutions of the state to one that stems from power that people at the grass roots generate in order to achieve the democratic purpose of participation in development. As I read it I enjoyed the atmosphere of trust generated by the participants, a feeling of belonging to the same world as they. Altogether, it represents an inspiring contribution to an otherwise largely uninspired and lacklustre academic field.

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REVIEW OF LABOUR

Class Re-formation in Mumbai

Has Organised Labour Risen to the Challenge?

Stephen Sherlock

The labour movement which made an impact on the character of the Mumbai working class in the past is losing much of its capacity to influence class formation at the level of consciousness and struggle. Past successes were the result of determination and sacrifice, but the fruits of this struggle were channelled into organisations which depended on an environment created by the state. While circumstances have changed, there appears to be a reluctance on the part of the trade unions to recognise the limitations of past achievements and to relate to the new Mumbai working class.

THE trade union movement in Mumbai has been among the most vibrant parts of the labour movement in India. As one of the earliest sites of industrial development in India, Mumbai saw some of the first instances of organised resistance by workers to the demands of capital. In the post-independence period, during a time of sustained economic growth, considerable progress was made in nurturing an organisation and culture of class-based activity. Organised labour made a significant mark on the social character and political life of the city. In the last 20 years, however, the economy of Mumbai has been remade. An old city which combined industrial and commercial activities in its physical heartland has been reshaped into a commercial and service centre surrounded by restructured industrial production dispersed to ever more remote locations. In the process the city's labour market has been transformed, reducing the bargaining power of organised and unorganised labour. These developments have had a drastic impact on the lives of working people and have thrown the labour movement in the city into crisis. This paper poses questions regarding capacity of the Mumbai trade unions to respond to the new environment.

Mumbai was initially a centre of trade and commerce, but it also became a manufacturing city from the 1860s with the creation of the cotton spinning and weaving industry. At its pre-war peak in 1925, the industry employed 1,48,000 workers, roughly one in every ten of the city's residents.[1] The inter-war period saw some diversification of Mumbai's industrial base, but it was the second world war which had a dramatic impact on Mumbai's manufacturing, in particular in basic metals and engineering, where employment grew by nearly 150 per cent between 1940 and 1943. Under post-independence autarkic policies a new range of import-substitution manufacturing grew up. Manufacturing made up over 40 per cent of employment in Mumbai into the 1970s, with textiles still accounting for almost half.[2]

The wave of sustained economic growth in the post-independence period came to an end in the mid-1960s. Industrial growth on an all-India basis averaged 7.7 per cent per annum from 1951 to 1965, but slumped to an average of 3.6 per cent per annum from 1965 to 1975.[3] The generalised crisis forced a period of restructuring for Mumbai's textile industry, as a part of a wider economic and spatial remaking of Mumbai.

The Mumbai textile industry until the 1950s was largely homogeneous, dominated by a relatively small number of mills producing goods of similar quality. From the late 1950s, however, technological backwardness and poor capacity utilisation made many mills unviable, with an increasing proportion of production accounted for by handlooms and powerlooms.[4] The mill sector became differentiated into old private and state-run units of variable degrees of (non)viability and newer units producing higher quality output. Many mills have also subcontracted part of their production to powerlooms, often in arrangements of dubious legality, taking advantage of lax labour laws and of state support to the non-mill sector.[5] The New Textile Policy of 1985 allowed for the closure of 'sick' mills, but other legal and administrative impediments have continued to impede many closures.

The differentiation of the textile industry into a backward non-viable sector kept in existence by state policy; a modern profitable sector with expanding investment and production; and a growing small-scale sector, often producing under subcontract to larger units, became characteristic of the entire spectrum of Mumbai industry. During the 1970s and 1980s there was an overall decline in manufacturing in Mumbai city (especially in the textile mills, where employment fell from 2,00,000 to 70,000) but at the same time there were trends to greater specialisation.[6]

Much of the shift from formal sector production to the informal and small-scale sector is part of the process of specialisation. As an example, the loss-making Carona footwear factory in suburban Mumbai was closed in early 1995 because the majority of its output was in cheap canvas and rubber products. In the words of the company's chairman, it was "difficult to compete in this segment with the unorganised sector". Eight hundred of the 1,200 workers accepted redundancy and Carona was reported to be looking to establish a modern plant in Mumbai "to cater to the higher end of the shoes market", with the remainder of production to be taken up by its existing plant in Aurangabad (*Business Standard*, April 8, 1996). The company appears to have surrendered part of its production to the informal sector, and to have reorganised its own output without necessarily relocating all of it outside Mumbai. Similarly, Hindustan Lever moved production of its high-volume low-value goods to plants outside Mumbai, much of it carried out by subcontractors, while at the same time retaining high-value production in the city because of the superior resources of skilled labour (interview with Bennett D'Costa, secretary, Hindustan Lever Employees' Union, Mumbai, January 1996. Interview with Irfan Khan, Communications Manager, Hindustan Lever, Mumbai, January 1996). Subcontracting has also extended to new public sector infrastructure such as the Nhava Sheva and Kandla port facilities, where many functions performed by regular employees in older ports are handled by labour contractors, with the latter reported to have half its workforce employed in this manner. (*Business Standard*, September 7, 1992).

Much of the process we are witnessing is not a de-industrialisation of Mumbai, but a spatial reorganisation, combined with an ever-increasing territorial expansion of the effective economic boundaries of the city. Thus the central (southern) areas of the city have become less important as manufacturing centres, and production has moved out into the suburbs, and to satellite centres such as Thane, Kalyan and Navi Mumbai. Other production is moving still further to nearby cities such as Pune and Nasik. The older precincts have instead become increasingly devoted to Mumbai's burgeoning service industries, including finance, tourism, retailing and entertainment. Mumbai is becoming, like most large cities in the developed world, one based on services and the

flow of information, with dispersed manufacturing located in specialised areas.[7]

A RE-FORMING WORKING CLASS

The restructuring of production in Mumbai has naturally had profound effects on the labour market and on the bargaining power of workers in the city. The relatively uniform labour market of the past is being replaced with diverse characteristics. The relocation of manufacturing, the rise of the small-scale and informal sectors, and the increased importance of service industries has significantly lowered the ability of most workers to improve their living and working conditions or even to defend existing conditions. On the other hand, smaller numbers of workers have benefited from the growth of specialised services and manufacturing.

The extent to which these changes were consciously undertaken by employers with the specific intention of undermining the power of organised labour is a moot point. Jairus Banaji of the Union Research Group argues that manufacturing is relocated to escape unionised labour and to take advantage of 'first generation' workers for as many years as possible before, presumably, moving on to reserves of unexploited labour still farther afield.[8] The level of unionisation even within well-established industries in the city is, however, not so great as to make unions the prime cause for relocating, although this would be a factor in some instances. Relocation is part of capital's efforts to maximise profits by reducing the overall costs of production, including but not confined to, the costs of paying and controlling labour. Remote areas are also attractive because of cheaper real estate, government subsidies, less congested services and so on. As far as labour is concerned, the net result is not only to provide new sources of cheap labour, but by extending the geographical limits of the Mumbai labour market, downward pressures are created on the price of labour throughout the entire city. By expanding into new labour markets, capital reshapes conditions in existing ones.

There are now fewer jobs in the formal sector of manufacturing and services, and an increasing proportion of new jobs are being created in the informal sector. Even the new jobs that are in the formal sector are usually in plants which are smaller than would have been the case in the past, and they are not likely to be clustered together with like industries in the manner which characterised the old textile mills. In the days when textiles dominated Mumbai's industrial scene, the concentration of large number of workers in a single plant facilitated union organisation. Union leaders could contact a large number of workers at the one time and messages about meetings, rallies or strikes could be passed quickly through a plant by union activists. Similar conditions prevailed in large-scale services such as the ports, transport, government utilities and departments, and in the majority of engineering, chemical and other manufacturing plants which grew up in the 1950s and 1960s. Organising in many other service industries and the informal sector was always a difficult task, but the manufacturing workforce provided a core of organised strength to the whole labour movement.

The dispersal of manufacturing has made conditions for labour organisation much more akin to the informal sector. Workers are scattered in many small sites, under the close supervision of managers hostile to unions for reasons, at best, of paternalism, and at worst, of sheer rapaciousness. It is a commonplace of industrial relations that smaller workplaces facilitate easier labour control and that smaller employers are more likely to resist unionisation. This has always been an issue for many service sector workers, such as in the commercial sector, hotels and the film industry, and the growing predominance of services in Greater Mumbai makes this a reality for increasing numbers of workers in the city and suburbs. In the case of workers employed by subcontractors, it is not only difficult merely to locate the myriad of obscure backyard sites, but the complex and often illegal chains of production frequently make it nearly impossible to determine who is really the employer. Production in such sites can quickly move at the first sign of a union organiser or government official.

The dynamic is, however, not all in the one direction: the labour market is becoming much more diverse and desegregated. While many workers operate in a labour market paying barely subsistence level wages and in appalling working conditions, the other end of the market pays wages and provides conditions which are the best in the country and which sometimes approach international standards. Workers at the higher end include those in the modern export-oriented textile mills, in plants devoted to the production of high-value goods, in highly-skilled technical positions and in certain parts of growing sectors such as finance. Many such workers are employed by international corporations or industries tied into the international market. Of course, greater numbers are likely to be found towards the lower end of the spectrum, but the days when labour was synonymous with the textile workers are long gone. Many of the commonalities of working class experience have been eroded.

The Mumbai trade unions constitute probably the oldest and most well-established wing of the labour movement in India. Conditions for organisation have never been ideal for the Mumbai working class as a whole, but whole segments of workers in major industries have had a long history of involvement in unions. The labour movement in Mumbai today, however, can only be described as being in a state of crisis, with levels of unionisation at a very low point and lockouts outnumbering strikes since the 1980s. The material circumstances which account for this crisis can be found in the restructuring of the Mumbai economy and the reshaping of the city's labour market described in the sections above. The following discussion argues, however, that the origins and structure of the Mumbai labour movement have contributed to the erosion of its strength and its inability to adapt to the changing nature of the city's labour market.

Organised labour in Mumbai emerged as a significant social force at the close of WWI, with a series of strikes in textiles and other industries which continued until the defeat of the 1934 textile strike. The unions were insubstantial bodies to which workers flocked during strikes and which tended to dissolve as effective organisations soon after. Unions associated with the Communist Party of India (CPI) suffered from repression, but the strategy of the colonial state was combined with paternalistic co-option. Left-wing, 'reformist' and 'non-political' unions were all undermined by the passing of the Trade Disputes Conciliation Act in 1934 and the subsequent appointment of labour officers to investigate workers' grievances and mediate in disputes.[9] At a time when the depression made conditions unfavourable to labour, such intervention by the state could often achieve more obvious benefit to workers than was apparently possible through unions.

As we shall see, this close state involvement in labour relations established in the final years of colonial rule was to set the pattern for post-independence Mumbai. The response of the trade unions to their embrace by the state was to have major implications for their future development. CPI unions gained strength during the second world war because the Party supported the war effort and discouraged strikes, a position which won it sympathy and even support from employers and the state. The absence of Congress leaders from the labour scene because they were imprisoned or underground due to the Quit India movement gave unions led by the CPI and the Royists (followers of the former Communist, M N Roy, who also supported the war) the opportunity to gain an organisational foothold.

The situation was reversed after independence when Congress labour leaders gained the support of the state and the CPI was again pushed to the margins of the labour movement. The CPI's apparent strength proved hollow when the buttress of state support was removed. Congress, on the other hand,

bearing the immense prestige of its leadership of the national movement, used its close identity with the post-independence state to establish a base in the working class movement. In Mumbai their efforts were naturally aimed at the centre of the city's working class – the textile workers. In 1947 Congress activists established the Rashtriya Mazdoor Mill Sangh (RMMS) as part of a generalised Congress campaign to imbue the whole Indian labour movement with Gandhian principles of co-operation between workers and employers.

The RMMS soon gained the reputation for being what van Wersch aptly described as "the type of union employers call 'responsible' ".[10] Unable to garner lasting support in the face of competition from the Socialist and Communist unions, the RMMS's influence in the textile industry was based mainly on its status as the sole representative union recognised under the Mumbai Industrial Relations Act (BIR). The RMMS's connections in the new state government of Mumbai allowed the Sangh to become the 'representative' union, a status which both obstructed effective organisation by the textile workers, but gave the Sangh a key role in labour negotiations in the industry. The RMMS often signed agreements with the mill-owners following strikes it had done its best to undermine. Ejecting the RMMS from what Morris called the 'legal fiction'[11] of its representative status has been central demand in most textile industry disputes ever since, including the historic strike of 1982-83.

The BIR Act is the provincial level version of a range of labour relations machinery set up in the final years of British rule and incorporated into the legal armoury of the independent Indian state at the central government level. The Industrial Disputes Act of 1947 embodies colonial government regulations drawn up during the war to mediate in industrial disputes and maintain uninterrupted production. It provides for compulsory adjudication in labour tribunals and courts and effectively ties labour organisations into a state-regulated framework. The adjudication system is supposed to provide a minimum level of representation where unions are absent or too weak to bargain effectively. But the growth of a culture of direct collective bargaining has been hindered by the lack of legislation to guarantee negotiating rights to the most representative union in a workplace. The Trade Union Act states that a union can exist with only seven members, allowing a proliferation of rival unions, including employer-sponsored unions, which can take a dispute to the labour court without having any real support in the workplace.[12] Thus the splintering of the Indian labour movement which began soon after the war, so often blamed on the activities of political parties, was inherent in the legal environment.

The first 15 to 20 years after independence were nevertheless something of a golden age for trade unionism in Mumbai.[13] The social-democratic/state socialist consensus in Indian political discourse created an ideological environment which was conducive to unionisation, even if the Congress commitment to 'industrial harmony' made it less than friendly to any action outside the official system.[14] Economic growth in India as a whole was relatively strong during much of the 1950s, and employment growth in Mumbai was particularly good as the city's manufacturing sector diversified behind high protective barriers. Mumbai was one of the few industrial centres where collective bargaining made some progress and a range of relatively strong, politically independent unions grew up, particularly in foreign-owned firms, that were able to negotiate settlements on wages and conditions in return for productivity deals. Moreover, when economic conditions began to deteriorate from the mid-1960s, there was the protection afforded by the Industrial Disputes Act banning the closure without government permission of plants employing more than 100 workers. This defended the constituency of many union leaders and obviated any necessity for them to reorganise the same workers if and when they were employed in restructured industries.

Fernandes and Samant: Limits of Heroism

These developments gave rise to a number of competing centres of union strength in Mumbai. A particular feature has been union leaders who have established a presence in the Mumbai labour movement through charismatic individual leadership.[15] The two supreme examples of this type of figure are George Fernandes and Datta Samant.

George Fernandes emerged as an important leader in the Mumbai labour movement in the early 1950s, when his tactical flair and brilliant public speaking style gave him a personal profile far beyond the appeal of his Socialist Party affiliations.[16] Fernandes was a central figure in the unionisation of important sections of Mumbai labour in the 1950s and 1960s, but by the beginning of the 1970s the impetus of his leadership was largely spent. The key to understanding the limits of Fernandes' style of organisation can be found in the fact that the main industries where he was strong were in the government sector, including the Mumbai Municipal Corporation and the transport and electricity services. After initially concentrating on hotels and restaurant workers, Fernandes moved on to sectors where employment was relatively protected and where wage increases could be accommodated in the government budget. Fernandes was unable to make major inroads in Mumbai's growing private sector industries where negotiating conditions were quite different. After being inducted into the national leadership of the major railway union in 1973 (another state-owned utility) and leading the all-India railway strike in 1974, Fernandes' political ambitions took over. He became a minister in the two Janata Party governments, before forming his own party in an ignominious alliance with the BJP in the elections of 1996.

The ultimate flamboyant individualist leader was, of course, Datta Samant, who shot to national and international attention as the leader of the 1982-83 textile strike. Samant's single line of attack was indefinite strike. His militancy and famous contempt for company balance sheets inspired many workers to win major gains during the 1970s, and his efforts were very important in blunting the offensive of the Shiv Sena against organised labour at that time. The limits of Samant's practice were reached, however, in the 1982-83 textile strike. As we have seen, the textile industry had been in crisis at least since the early 1960s, but legislative and political constraints kept tens of thousands of workers employed in mills which would otherwise have been closed or restructured. To launch an indefinite strike in these circumstances provided an opportunity for the employers to restructure the industry by other means. The strike allowed accumulated stocks to be used up, run-down mills were "temporarily" closed, never to reopen, and production was farmed out to the small-scale sector. While the tenacity of the textile workers during the strike was incredible, the dispute was effectively lost in the first six months, and many workers' sacrifice brought them only unemployment or jobs under worse conditions in the small-scale sector. Like Fernandes, much of Samant's organisational muscle ultimately depended on bargaining power underpinned by conditions created by the state. During the 1982-83 strike Samant tried to push the possibilities of these conditions beyond their limits and undermined his own position – and of more significance – the position of the textile workers.

The textile strike was a watershed for labour in Mumbai. The industry had been the backbone of the Mumbai economy for so long and its workers were seen as the big battalions of the labour movement. Following the strike, however, textile employment shrank by over a half. The defeat of the textile workers was a massive setback for organised labour as a whole and marked the beginning of a new period in which, for the first time since the 1950s, unionisation no longer

covered the key sectors of the Mumbai economy. The strike revealed the extent to which the previous levels of unionisation were dependent on a supportive, even if constricting, environment fostered by the state.

Ever since the defeat of the textile strike, the labour movement in Mumbai has been on the defensive. A new aggressiveness on the part of employers has been marked by the appearance of employers' charters of demands, where bosses have reversed the former culture of industrial bargaining and made continuance of production conditional on the workers agreeing to demands on productivity and staffing. The post-1991 round of liberalisation has contributed to this environment, in particular by making closure of plants somewhat easier. The introduction of the Voluntary Retirement Scheme has been particularly important in inducing workers in many plants to accept closures or workforce reductions. Datta Samant's unions, in particular, have been weakened when, against Samant's advice, workers in his former strongholds such as Premier Automobiles have agreed to accept redundancy packages as a part of restructuring plans.

The unions which have best survived the crisis of the last decade have been some of the politically independent unions in the advanced sector of the Mumbai economy. These unions continue in the particularly Mumbai tradition of pragmatic company-based organisations using the relatively strong bargaining power of skilled labour. They have been willing to enter into productivity bargains to achieve good results in wages, allowances and conditions, but according to critics, often at the cost of jobs. It is interesting to note, however, that the Left unions which long refused to enter into productivity deals have changed their position in recent years.

Activists of such unions tend to be assertive, if not militant in their approach to unionism, but with an instrumentalist rather than an ideological outlook – although some have a background in leftist student politics. Many have, from time to time, allied themselves with party-controlled trade union centres or called in individual leaders such as Datta Samant, but have dispensed with them should they consider themselves hindered by such connections. Independent unions have sometimes enlisted Samant as nominal president of their union, in the hope that the mere association of the name would induce management to negotiate. The workers at Voltas Switchgear in Thane have reportedly joined and left Samant's union on three separate occasions since 1973 (*Business India*, March 29, 1993).

The greatest weakness common to most of the independent company unions is their extreme sectionalism – the lack of a sense of solidarity with, or obligation to, a wider movement. As skilled workers, members of such unions are often in a position to make gains through their own independent efforts and thus tend to be impatient with calls for solidarity with workers in a weaker bargaining position. Sectionalism can extend so far that employees of some companies in Mumbai have a different union from those in the same company in, say, Calcutta. Of course, large firms such as Hindustan Lever and Philips have been extremely hostile to attempts even to form federations of their company's unions, but one suspects that the workers' own insularity has played a role in perpetuating divisions. The secretary of the Hindustan Lever Employees' Union, Bennet D'Costa, freely admits that his union has made no efforts to attempt to organise workers in the small plants to which their company has subcontracted production. Such major omissions are also a characteristic of the union federations. Vivek Monteiro of the CITU is of the opinion that the tasks involved in organising in the dispersed small-scale sector are in principle the same as in large plants, yet there is little evidence that the CITU has made any major efforts to unionise these workers. The situation is certainly not improved when a figure such as Datta Samant consistently opposes efforts to promote cross-union solidarity during strikes (even during the 1982-83 strike) or united campaigns over general labour issues.

The most disturbing aspects of the crisis facing the Mumbai labour movement has been its subversion by clientism, corruption and even organised crime. There has long been a current of patron-clientism in the Indian union movement in which union leaders act as 'big men' who use their political or other connections to broker deals with employers and take money from workers seeking favours or resolution of individual grievances. This has been facilitated by the legal structures of conciliation and adjudication which provide openings for the arbitrary intervention of politicians in favour of the unions they sponsor. The RMMS is the most extreme example of this phenomenon in Mumbai.[17] Its power was boosted by the legislation restricting the closure of mills which effectively gave the RMMS the power to authorise their shutdown. The RMMS has allegedly signed hundreds of secret agreements with millowners since the end of the textile strike allowing the retrenchment of thousands of workers, all presumably with some form of payoff for the union leaders (*Business India*, March 19, 1990). These forms of deal-making and corruption also invite the involvement of organised crime. This was graphically revealed in the case of the millowner Khatau who hired gangsters to take over the local RMMS branch, but who became embroiled in gang feuds and was murdered. Thus purportedly pro-labour laws have not prevented the loss of thousands of jobs (although they may have slowed them), but have strengthened the grip of corrupt union leaders. It is probably the most pernicious result of the long-standing tendency of Indian unions to rely first on the supportive structures of the state rather than on the collective power of their members.

The next marker along the path towards complete degeneration is represented by the Shiv Sena unions. The first efforts by the Shiv Sena to build influence on the Mumbai labour scene in the 1960s were mainly based on appeals to the regional-chauvinist sentiment of Marathi workers.[18] While such appeals brought periodic electoral success to the Sena, it never built a significant following for its unions, and most of its influence was won by strong-arm tactics which, as mentioned above, were contained by Datta Samant's unions. The resurgence of the Sena after its enlistment into the Hindu fundamentalist Hindutva brigade, however, has enhanced its ability to force its way into workplaces, as it attempted to do during the anti-Muslim pogrom of January 1993.[19] In sites where the Sena has succeeded, the nexus between union boss, politician and criminal seems complete. Promises by the new Shiv Sena-BJP state government to reform the Mumbai Industrial Relations Act probably have the intention of assisting the Sena's unions to carve out further influence in the labour movement, in particular by supplanting the RMMS (although the restructuring of the textile industry has made it less the glittering prize it once was).

The only encouraging side to these developments is that the Shiv Sena apparently still cannot win a following amongst Mumbai workers through open campaigning. Although many workers are undoubtedly affected by the rising tide of communalism inundating the rest of the community, they are still able to recognise and fight for their class interests, often alongside members of different communities.[20] The Sena has made little headway in communalising the workplace, even during the worst of the 1992-93 events.

Class formation is a continuous process, not a one-time affair which comes to an end with the establishment of an industrial labour force. Class re-formation is driven in part by the induction of new workers into the capitalist production process, and also by the continuous reshaping of labour market conditions for those workers already selling their labour-power. The common experience of participating in the production process, and its impact on the lives of workers and their dependents, tends to encourage the emergence of a class as a political force with

various degrees of self-awareness. A key element influencing the possibility of class formation at this level is the nature and strength of existing labour organisations as they emerged in earlier periods of class development: that is, whether those organisations are capable of relating to the experience of the newly forming class and of mobilising its potential capacity to exercise power at the workplace or around the state. The past performance of labour organisations is a major determinant of their influence on the future course of class formation and re-formation.

Mumbai is going through a period of restructuring dating from the crisis of the 1960s and 1970s, while also adapting to the post-1991 acceleration of integration into the world economy. At the same time it is losing much of its old character as an unspecialised third world city and is being remade into a service centre specialising in flows of information as much as in the production and movement of commodities. Many of the solidarities amongst workers fostered by an autarkic political economy, a conducive ideological environment and a manufacturing sector dominated by a single large-scale industry are being dissolved without being replaced by a new sense of collective identity The atomisation of the production process is being reflected in the outlook of workers. As Sandeep Pendse has expressed it:

> A chasm has developed between the organised workers and the others .. Self-identification as members, however removed, of the working class begins to recede.. [The working class's] social and ideological weight exhibits a proportional decline. Informalisation and expansion of self-employment also saps the basis of any occupational or class identity. It leads to a greater atomisation and competition. The exploitative and oppressive nature of the system becomes increasingly invisible. Anger becomes ever more vague and unfocused. Dreams tend to be acquisitive and consumerist.[21]

The labour movement which made an impact on the character of the Mumbai working class in the past is losing much of its capacity to influence class formation at the level of consciousness and struggle. Past successes were the result of determination and sacrifice, but the fruit of this struggle was channelled into organisations which depended on an environment created by the state. While circumstances have changed, there appears to be a reluctance on the part of many unions to recognise the limitations of past achievements and to relate to the new Mumbai working class that is in the process of formation. In concrete terms, there is no alternative to the slow, often unrewarding work of organising in the small-scale sector where the working class is actually growing. But many labour leaders have become used to the patronage of the nation-state and accept an enfeebled condition so long as their political and personal fiefdoms are protected. Meanwhile, the dynamic of class formation is moving on in new directions and without a re-orientation by the labour movement as a whole there is a danger that many unions will become irrelevant to the experience of workers now being drawn into the changing capitalist production process.

Notes

1 R Chandavarkar, *The Origins of Industrial Capitalism in India: Business Strategies and the Working Classes in Mumbai* 1900-1940, New Delhi, 1994, p 250

2 Nigel Harris, *Economic Development, Cities and Planning: The Case of Mumbai*, Mumbai, 1978.

3 D Bhattacherjee, 'Unions, State and Capital in Western India Structural Determinants of the 1982 Mumbai Textile Strike' in R Southall (ed), *Labour and Unions in Asia and Africa*, London, 1988, p 212.

4 H van Wersch, *The Mumbai Textile Strike 1982-83*, Mumbai, 1992, p 27, Bhattacherjee, op cit, p 218

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8 J Banaji and R Hensman, 'India. Multinationals and the Resistance to Unionised Labour', *International Union Rights*, Vol 2, No 2, 1995, pp 5-6. A Shrouti and Nandkumar, *New Economic Policy, Changing Management Strategies: Impact on Workers and Trade Unions*, New Delhi, 1994.

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11 M D Morris, *The Emergence of an Industrial Labour Force in India*, Mumbai, 1965, p 194.

12 E A and U Ramaswamy, *Industry and Labour*, Delhi, 1981, pp 194-97.

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14 S Sherlock, 'The National Commission on Labour and Its Quest for Industrial Harmony' in J Masselos (ed), *India: Creating a Modern Nation*, Sterling, New Delhi, 1990.

15 E A Ramaswamy, *Worker Consciousness and Trade Union Response*, Delhi, 1988. S Sherlock 'Conflict and Competition: Organised Communalism and the Labour Movement', *South Asia*, December 1994.

16 P J Ovid, 'Bombay Trade Union Movement. A Harbinger of Dignity to Indian Labour' in G Mathew (ed), *Dignity for All: Essays in Socialism and Democracy*, Delhi, 1991, pp 209-10.

17 For a discussion of patron-client unions and the Congress National Federation of Indian Railwaymen see my 'Railway Workers and Their Unions: Origins of the 1974 Indian Railway Strike', *Economic and Political Weekly*.

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19 J Lele, 'Saffronisation of the Shiv Sena: The Political Economy of City, State and Nation' in S Patel and A Thorner (eds), *Mumbai: Metaphor for Modern India*, Mumbai 1995.

20 According to Bennet D'Costa, attempts by the Shiv Sena to organise in Hindustan Lever sites were met with an almost total lack of response from the workers. Similar evidence of the failure of the Shiv Sena was related by Vivek Monteiro of the CITU and Vasant Gupte of the Hind Mazdoor Sabha.

21 Sandeep Pendse, 'Toil, Sweat and the City' in Patel and Thorner, op cit, p 25.

State Intervention and the Working Class Movement

Sharit Kumar Bhowmik

The state has played a dominant role in influencing the course of the trade union movement in India. The fissures which appeared soon after independence developed into what is today the bane of the working class movement, multi-unionism. The state's interventions in regulating industrial relations have, generally, dampened independent workers' initiatives and encouraged inter-union rivalries.

EVEN a cursory examination of industrial relations in India will show that the state, through its legislations and its bureaucracy, exerts considerable influence on the affairs of the working class. This paper attempts to analyse the interactions between trade unions and the state in the post-1947 period.

In the early years the Indian government's industrial policy based on self-reliance necessitated that the working class be induced to accept the new pattern of industrialisation. Trade unions were incorporated by the state in order to contain opposition from the working class. The state's presence in regulating industrial relations had at times favoured the workers especially when it tried to protect them from the unscrupulous dealings of the employers. However its continued and dominating presence has affected the development of the working class movement in general. The autonomy of trade unions is diluted as they tend to depend on the state to sort out their problems with the employers. Moreover, the state is also able to manipulate trade unions when it wants to favour the employers. We shall attempt to analyse this process in the course of this paper.

Trade unions as organisations of labour were born out of the industrial revolution and originated in England. In the early stages trade unions were formed to regulate competition among the workers. The industrial revolution had impoverished the British peasantry which was then forced to migrate to the industrial centres in search of work. There was constant competition between low paid workers and unemployed job seekers. If a worker was unwilling to work at a particular wage the employer could find several others who would be willing to work for even less. This competition for jobs depressed the wage rates and provided total power to the employers. While commenting on this situation Friedrich Engels (1973) noted that "this was the worst side of the present state of things in its effects upon the worker, the sharpest weapon against the proletariat in the hands of the bourgeoisie". Workers tried to overcome this competition by forming associations. They did so in the face of stiff opposition from the employers. In fact trade unions were a result of these spontaneous attempts of workers to end competition. They were hence organisations which were unique to industrialisation as they had no roots in any pre-industrial organisations [Flander 1970].

Multi-Unionism and the State

The most striking contrast in the trends in the trade union movement before and after independence is that in the earlier period, though there were fissures in the trade unions from time to time, in the latter period splits became the order of the day. The All India Trade Union Congress (AITUC) formed on October 31, 1920, was the first national federation of trade unions. Till the eve of independence it remained as the representative of the working class with all shades of ideologies, ranging from communism to liberalism, under its umbrella. It underwent splits on ideological grounds but these differences were sorted out and from 1940 onwards it remained united. The situation changed drastically after independence.

During the last few years of British rule the communists gained considerable control over the AITUC. Soon after Home Rule was declared the leaders of the Indian National Congress decided that since labour would play a crucial role in the new pattern of planned development it could not allow the trade union movement to be led by the communists. The Congress decided to set up another trade union centre which would rival the communist-controlled AITUC's hold over the working class. Thus the Indian National Trade Union Congress (INTUC) was formed in May 1947, a few months before independence. The remarks of Khandubhai Desai[1] who later became union labour minister make the purpose clear. He said, "It is high time that those interested in building up strong trade unionism dissociate themselves from the communists if for nothing else to demonstrate to the world that whatever prestige and status the movement had was because of the efforts of non-communist trade union workers." Moreover it was necessary to co-opt trade unions into the new government's policies hence a new union with avowed loyalties to these policies was necessary: "It is also felt by many active trade union men that the advent of the country's independence, the trade union movement would have to play its destined and legitimate role of influencing the trends towards the elimination of political, economic and social exploitation."

The formation of the INTUC thus marked the first step of the state in controlling the labour movement. It is perhaps possible to justify this act to some extent as C K Johri (1967: 11-12) has done by arguing that industrial peace is necessary during the period of national reconstruction, especially when there is a consensus that "economic development must take place under the aegis of the government". Johri argues that in such a situation a government of a newly independent country can achieve the purpose of its policy better if the whole or part of the trade union movement is ideologically aligned and politically close to the party in power. However it is necessary to consider the long-term effects of such a policy of state intervention. Usually it is found that though the state may influence the workers' movement with all good intentions in the initial stage its continued involvement does not help the working class movement. We shall deal with this later, but before that let us briefly summarise the course of trade unions after the formation of the INTUC in 1947.

The split in the AITUC in 1947 paved the way for further splits based on the lines of political parties. It has now become almost mandatory for every political party to have its trade union front. When political parties split their trade union fronts also split thus fragmenting the working class even further. When the INTUC was formed the socialist group within the Congress opposed the idea and their unions remained with the AITUC. A year later this group broke away from the Congress to form a Praja Socialist Party which decided to have its own trade union organisation which would draw the non-communist, non-Congress unions together. Thus the Hind Mazdur Panchayat was formed that year. Their objective was partly realised as the M N Roy-inspired Indian Federation of Labour merged with the HMP to form the Hind Mazdur Sabha (HMS). In 1949 the unions supported by the Revolutionary Socialist Party (a Marxist group having influence mainly in West Bengal) which had joined the HMS decided to break away as they feared being swamped by the socialists. They formed their own federation called United Trade Union Congress (UTUC).

In 1952 the Bharatiya Jan Sangh, a political party having a Hindu fundamentalist background, was formed and in 1955 it initiated another trade union centre known as the Bharatiya Mazdur Sangh. In 1965 another socialist party known as Samyukta Socialist Party was formed and its most important trade union leader, George Fernandes, broke away from the HMS to form a new Hind Mazdur Panchayat. However till 1970 the most important trade union centres in the country were INTUC, AITUC and HMS. The split in the Communist Party of India in 1964 which led to the formation of the Communist Party of India (Marxist) split the AITUC in 1970. In that year the CPI(M) formed the Centre of Indian Trade Unions (CITU) which took away a large section of unions with it. The UTUC was also split into two when the unions of Socialist Unity Centre formed another UTUC.

Apart from the working class movement being divided on the lines of political parties at the national level regional parties too started forming their own unions around the late 1960s. The DMK in Tamil Nadu started its trade union centre and when the AIADMK was formed it too set up its own trade union centre. The year 1967 saw the birth of the Shiv Sena in Bombay. In its early phase the Shiv Sena claimed to represent the interests of Maharashtrians in Bombay. It was avowedly anti-south Indian and anti-communist. It formed its own labour wing called the Bharatiya Kamgar Sena. It was widely believed that the Shiv Sena had the backing of some (non-Maharashtrian) big industrial houses in the Bombay-Pune belt to combat the strong influence of communists and socialists in the labour unions. It managed to do so fairly successfully and by the mid-1970s its trade union wing became the largest union in Bombay.

We have presented a sketchy and partial picture of the trade union scenario in the country. However, we can see that the trade union movement which was once united now stands badly divided. That a proliferation of political parties in the country necessarily leads to a proliferation in trade unions will be a simplistic explanation of the situation. There are other reasons for this trend and these are rooted in the nature of labour legislations, the attitude of the state towards labour among others.

Labour Legislation: State as Arbitrator

On attaining independence from colonial rule one of the main objectives of the government's policy was to achieve a high growth rate. At the same time, if the country was to retain its economic independence it could do so only if the government played the role of entrepreneur. This necessitated that centralised planning along with the expansion of the state sector become the key factors for the new pattern of growth. In order to achieve these objectives it was necessary to maintain industrial peace and the government thought it necessary to intervene in labour management relations when conflict between the two arose. Thus in 1947 the Industrial Disputes Act was passed. This act attempted to protect the workers by curbing the rights of the employers in arbitrarily firing workers, providing for works councils in factories with over 100 workers and by recognising trade unions as an essential feature of industrial relations. The government realised that industrial peace could be achieved only through protection against victimisation and through recognition of trade unions [Johri 1967: 108]. At the same time the act also provided for conciliation by the government in disputes between labour and management. If this failed the parties were compelled to submit their differences to arbitration. This provision was taken from the Defence of India Rules passed by the colonial government during the second world war [Ramaswamy 1986:25].

In 1949 two new bills, the Labour Relations Bill and the Trade Unions Bill, were introduced in the Constituent Assembly to replace the existing acts in their fields. The former stressed collective bargaining and settlement of disputes through bipartite negotiations. The latter provided for compulsory recognition of trade unions by the employers among other features [Johri 1967: 108]. These bills were kept pending till the elections in 1952 when a popularly elected parliament could deliberate on them. The first labour minister of the elected government was V V Giri who had always opposed government interference in labour and he was keen that the bills be passed. They were discussed in the 12th session of the Indian Labour Conference held in 1952. Though Giri wanted labour to be independent of government patronage this view was opposed by most unions, most of all the government-backed INTUC. It was only the communist-led AITUC which strongly supported this stand. In a reply to a questionnaire circulated by the government before the 12th ILC, it stated,

> Compulsory adjudication and arbitration in a state based on capitalist-landlord relations, as ours is, will lead to, and positively mean, an open dictatorship over the working class in the ultimate interest of the exploiting classes. It always worsens the conditions of the working class in the final analysis [Ramaswamy 1986: 28].

The AITUC wanted legislation enforcing collective bargaining through compulsory recognition of trade unions [Ramaswamy 1986]. The three other national federations, INTUC, HMS and UTUC, however did not favour a move which would reduce the

government's role in conciliation of disputes.[2] The ministries too were not keen on any change in the existing laws. They were the major employers then and they felt that taking away government regulation would weaken their hold in labour management disputes. These bills were thus never passed and Giri eventually resigned as labour minister [Ramaswamy 1986].

The government's enthusiasm in intervening in labour disputes during the period soon after independence was not totally derived from a need to blunt worker's action against the employers. It also realised that compared to the organised might of the employers the workers were weak and helpless. The government passed a number of legislations covering various aspects of employment. These included wages, bonus, disciplinary procedures, recruitment policies, etc. It also realised that workers on their own would be unable to ensure that laws were enforced. The degree of unionisation in the organised sector was low. Johri's study (1986) shows that it was less than 30 per cent till 1956-57. The government therefore felt the need to intervene through its labour department to ensure that workers got justice.

However, one can argue with equal emphasis that the government's policy was in fact aimed at blunting the worker's initiatives in organising themselves against the might of capital. For example, instead of acting as arbitrator, even if in favour of workers, the government could have passed a law providing for compulsory recognition of trade unions by the employers as the negotiating body for the workers. This would have encouraged workers to become members of trade unions and deal with their employers on their own strength. In order to encourage such a trend the government would have had to change at least two of its acts, the Industrial Disputes Act so as to incorporate trade unions as the negotiating body on labour's behalf and the Trade Unions Act to lay down specific measures through which a trade union can be recognised as being representative. However, this was not the government's purpose as it was afraid that trade unions under these circumstances could become too independent. They might then emerge not only as opponents of the employers but also of the government. The formation of the INTUC by the Congress as an opposition to the AITUC is clear indication of this fear. It also indicates the government's intentions of trying to incorporate the working class movement into the state. Moreover the legal framework for judging disputes when conciliation and arbitration failed were too expensive and long drawn for the workers. The employers were in a stronger position as they had greater staying power compared to the workers. The government could have provided remedial measures by setting judicial courts for speedy decisions on industrial disputes.

The government justified its actions because of its policy of expanding industrialisation through the state sector. It explained that workers should not assume the same anti-capitalist position against the state sector which they assumed with the private sector. The new basis for development required industrial peace and co-operation of workers. The government realised that granting less protection to workers would lead to industrial strife as was witnessed during 1946-48 [Johri 1967: 103-04] and it was necessary to intervene in order to prevent this in future. The labour minister's speech at the eighth session of the Indian Labour Conference (1947) has this underlying implication. He noted: "...the worker has the right to expect assistance from the community and the state representing the community, and nowadays no abiding improvement will be possible unless the demands of the workers are *backed by public opinion and the authority of the state...*" [emphasis added, Johri 1967: 104]. This statement indicates that public opinion and state authority are linked with each other, hence the latter can decide what is good for the workers. Moreover the government's fear that the working class could oppose its policies can be seen from the following statement of the minister, "...our recent experiences in several cases have shown that no government can function if it allows the workers to be made a pawn of political parties interested not in bringing about an improvement in working conditions consistent with the general economic conditions in the country, but to secure a position of advantage for their own parties" [John 1967: 105]. The argument here is that if labour becomes anti-government it is a pawn of opposition parties but if it supports the state (as the INTUC did) it acts in accordance with public opinion.

The government's approach of promoting the state sector especially in the core industries was endorsed by most of the national trade union centres. The Second Five-Year Plan (1957) embarked on a massive programme of expanding the core sector industries through the public sector. All the major trade union centres, including the INTUC, AITUC, HMS and UTUC supported the objectives of the plan. The government needed this support as it would ensure industrial peace. The left unions, such as those supported by communists and socialists, drew a distinction between the private sector and the public sector where the latter marked the growth of the non-capitalist path to development. Ironically, the communists never tried to explain how a government which it had characterised as representative of capitalists and landlords could initiate a path of non-capitalist development. However labour's support to the state's plan helped achieve higher growth rates during this period.

Apart from this, the projected pro-labour attitude of the government changed at the time of any serious challenge by the working class. In 1974 all the trade unions in the railways (except for the INTUC-backed ones) organised a nationwide strike. The strike was successful in spite of opposition from the INTUC as most railway workers participated and rail traffic came to a standstill. Instead of trying to understand the workers' demands, the government took a strong anti-worker stand and used the entire state machinery to break the strike. Ultimately the strike was called off as the government refused to negotiate. Similarly during the Emergency in 1975-77 the government enforced all measures to curb union activities and any form of militant struggles by the workers. At the same time it did not take effective steps to pressurise the employers into fulfilling their commitments to labour.

An examination of the industrial relations scene will show that whenever there has been any major confrontation between labour and management, government intervention has largely been in favour of the management. E A Ramaswamy's study of two industrial disputes, one in the textile industry and the other in the automobile industry, in Tamil Nadu [Ramaswamy 1986: 25-26] in the late 1970s gives a graphic account of state manipulation in favouring the employers. Another significant example is the strike by textile workers of Bombay in 1982-83. This strike was led by Datta Samant who was the most powerful union leader of Bombay then and it lasted for 18 months. For the first 15 months the entire textile industry in the city was at a standstill due to the strike and this was regarded as the largest and longest lasting strike in the country. The workers put forth demands which included increase in wages, regularisation of casual workers, etc, but their most important demand was that of derecognition of the INTUC-affiliated Rashtriya Mill Mazdur Sangh which was the representative union under the Bombay Industrial Relations Act. However in spite of display of unity by the workers and their determination to fight, the strike ended a failure. The government extended its full support to the employers and the representative union and did all it could to break the strike.[3] In fact during this period the chief minister of Maharashtra (A R Antulay) was changed and the new person (Vasantdada Patil) was inducted because he was once a leader of textile workers. This was obviously done with the intention that the new chief minister would be competent in breaking the strike as he himself was a labour leader. We can see from these examples and many

others that the state has rarely ever taken a pro-worker stand in cases of major labour-management conflicts. In most cases the state has sided with the employers and used its authority to break the workers' movement.

Problems of Trade Unions

The state's intervention in regulating industrial relations has in general created more problems for the workers and for the trade union movement. In his study of labour politics, Rakhahari Chatterji (1980) observes that the elaborate legal structure along with adjudication by the labour department officials has placed the state between the worker and the employer with the objective of reducing industrial conflict. This has in effect undermined the role of internal unions. The complicated legal process makes it almost impossible for workers to tackle these internally and they have to depend on outside leaders to do so. Moreover, the ordinary workers are unable to deal with the state's elaborate bureaucracy on their own. They have to either develop or purchase the expertise to do so or find leaders with the right political contacts.

The state's policy has at times led to a rise in militancy among the workers. Since the legal process is complicated, long-drawn and expensive for the workers they often resort to violent outbursts or strikes to get quicker redressal. The rise of militant union leaders such as Datta Samant can be attributed to this. E A Ramaswamy's study of Bombay's working class shows the growing impatience of workers with the legal process. He quotes Samant who explains that "When the workers get something good from the lower courts, the employer goes to the Supreme Court and straightaway 10-15 years are lost. The worker naturally cannot afford to wait for so long to get things changed" [Ramaswamy 1987: 20].

The proliferation of trade unions on narrow party lines during the post-independence phase has also weakened the working class movement. Inter-union rivalries are at times stronger than conflicts between labour and management. In several cases when workers find that the existing trade union federations are unable to meet their expectations because they either tend to compromise with the management or they are split on party lines they turn to independent trade unions. Datta Samant's popularity as one such leader has been mentioned above. There are examples such as Shankar Guha Neogy, A K Roy and Ela Bhat.

Ela Bhat was a leader in the Majur Mahajan in Ahmedabad and she broke away to form the Self-Employed Women's Association (SEWA) in 1981 when she found that the union was not sensitive to the problems of women workers in the unorganised sector. A K Roy organised the coal mine workers in the Dhanbad-Jharia belt in Bihar in the 1970s. The existing unions were affiliated to the larger federations and there was intense inter-union rivalry. Moreover, the union leaders were involved in exploiting the workers and were engaged in all sorts of nefarious activities. Roy's union attracted a large number of workers as they found it to be a committed workers' organisation. Shankar Guha Neogy organised the contract workers in the iron ore mines of Dalli Rajhara near Bhilai in Madhya Pradesh. The trade unions operating here were more concerned with the problems of workers in the organised sector, namely, the permanent and better paid workers of Bhilai Steel Plant. Neogy got overwhelming support from the contract labour and other workers employed in small- and medium-sized industries in the region. Unfortunately he fell victim to his success as he was brutally murdered in 1990. It is suspected that some of the local industrialists were involved in planning his murder. There are several other cases of independent unions in the country. In most cases they have come up as alternatives to the existing trade union federations. The concerned workers have tried to seek alternatives for improving their bargaining conditions with their employers. These unions therefore expose the weakness of the traditional trade union federations. The main feature of these unions is that they are usually centred around a particular leader. This may create problems later as the policies of the union are determined by the leader.

There are other types of independent unions which are different from the leader-based ones discussed above. In the modern industries which use higher levels of technology and engage skilled and better educated workers we find a tendency of single unions. This is fairly common in the large enterprises in cities like Bombay, Bangalore, Pune and Hyderabad. Many of these unions are not affiliated to the trade unions federations and even if they are their effective leadership is elected from within the workers. The trend towards a single internal union arises precisely because workers in these enterprises want to have a single bargaining agency.

Almost all major unions in India have admitted at some time that multi-unionism is the major drawback of the trade union movement. In several large establishments we can find a number of trade unions operating among the workers. Some of these have very small membership at the unit level but they continue to exist. While the division of trade unions on party lines is to an extent responsible for this chaotic situation, the legal framework, or the lack of it, provides the impetus for multi-unionism. We have discussed earlier how the state has elaborate laws which have been framed ostensibly to protect workers. However the most significant aspect of the legal system regulating industrial relations is that there is no law providing for compulsory recognition of trade unions in

enterprises. Recognition of unions as bargaining agents is left to the discretion of the management. We have discussed earlier about the failure to carry through the Acts of 1950 which would make union recognition compulsory. Thus in the absence of any mechanism for compulsory recognition it is possible for unions with minuscule membership to vie for recognition. Managements find it easy to create division among the workers by recognising more than one union.

This problem is rooted in the Trade Union Act of 1926 which has remained unchanged ever since. The Act provides for registration of unions but it allows any union with 10 or more members to be registered as a trade union. Verification of union membership is left to the Registrar of Trade Unions and is rarely done. Instead unions are asked to voluntarily submit their membership figures and it is often found that the total membership of all unions exceeds the number of workers employed. Moreover, the Industrial Disputes Act of 1947 which provides the framework of the industrial relations system allows state appointed labour officers to mediate in disputes between labour and management. Any registered union, irrespective of the size of its membership can bring up a dispute before the conciliating officer and seek redressal. This makes it possible for several unions to exist without being recognised by the management. Even when regional legislation exists, such as Maharashtra Recognition of Trade Unions Act, the method for recognition as representative union is unsatisfactory as membership verification and not election through secret ballot is the means.

Compulsory recognition of trade unions as bargaining agencies could bring some order in the present situation. The national trade union federations all agree that the majority union in an enterprise should be recognised as the principal bargaining agent. However there are sharp differences on how to establish this majority. The national federations such as the AITUC, CITU, HMS, UTUC and TUCC are strong advocates of the use of the secret ballot to decide the issue. The BMS also advocates voting but wants to restrict franchise to only those workers who are unionised. The INTUC on the other hand is equally strong in opposing this measure. It has all along insisted that the majority should be established through verification of membership. It argues that the ballot will be vitiated by money power, muscle power, caste and communal factors. The advocates of the ballot hold that when the government is chosen by secret ballot there is no reason why the negotiating agent cannot be chosen in a similar manner. They have strong reservations on assessment of a union's strength on the basis of membership verification as this is done by the government officials. The government in power can influence the verifying officers. The check-off system, where deduction of union membership fees is made by the management from the worker's pay is also not a reliable method as managements can assume a decisive position.[4] These opposing positions on trade union recognition have created a deadlock in arriving at any decision on the subject. Therefore, as things stand, unless the state decides to amend the existing industrial relations laws the working class will be plagued by the problem of fragmentation through multi-unionism.

Concluding Observations

The above discussion has attempted to analyse the role of the state in the working class movement. The state tries to justify its involvement or intervention in industrial relations on the grounds that the workers are the weaker section and they need its protection for defending themselves against the employers. Moreover, the state's policies are also guided by the desire to maintain industrial peace. However, we find that the continued involvement of the state has not achieved the desired objectives. The long winded and expensive legal processes have frustrated the workers who have frequently taken to militant struggles. The state has often sided with the employers in disputes with workers. The worst consequence of state intervention through its labour department has been the undermining of the trade union movement, in other words, the workers' abilities to organise themselves and articulate their own problems.

The working class and the trade union movement have however not accepted state intervention passively. Though the working class movement has been fragmented into a number of trade unions which is partly due to the influence of political parties and also due to the laws which allow this system to flourish, the workers have formed trade unions to meet the various types of challenges. It is found that when the existing trade unions are unable to meet their aspirations new types of unions are formed. Therefore, the trade union movement as a whole has been flexible enough to adapt itself to changing situations. This is strengthened by the fact that the average worker realises that trade unions can protect his interests more effectively than the state.

The changes taking place in the economy through the process of liberalisation pose the greatest challenge to the labour movement. There are job losses in the organised sector and an expansion of the unprotected/unorganised sector. A fragmented trade union movement can hardly provide any checks to this process. The need for trade union unity is most important at this crucial juncture in order to counterpose the threats by the employers and the state. Hence trade unions need to first of all put their house in order and protect the interests of labour. Only then can they influence the mechanisms of the state in fragmenting unions.

Notes

1 The extracts of Khandubhai Desai's remarks have been taken from C K Johri 1967, p 10.
2 See Ramaswamy (1986), pp 28-29, for details on the positions of the trade union federations.
3 For details on the textile strike see Bakshi 1987, Bhattacharya 1988 and Wersch 1992.
4 Government of India 1990, Paragraphs 7.6 and 7.7 give a summary of the two views.

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Independent Trade Unionism in West Bengal

Sarath Davala

The growth of independent trade unions is a reflection of the inability of the political trade unions to meet workers' needs. But are independent unions capable of emerging as an alternative movement? An examination of the growth of independent trade unionism in West Bengal where centralised party unionism continues to be the dominant form.

WEST Bengal is the cauldron of party unionism. Multiplicity of unions is practically a norm in this state. CITU, the trade union wing of the ruling party CPI(M), is not surprisingly the dominant union, with INTUC coming next. All other national centres such as HMS, AITUC, TUCC, UTUC, UTUC(LS), NFITU, AICCTU, etc, have their symbolic presence virtually everywhere irrespective of their membership strength, though each has its own pockets of influence in specific industries. HMS, for instance, has a substantial following in ports and railways, and together with AITUC in the coal industry, while other unions have limited following in certain specific regions and industries.

West Bengal has both industrywide bargaining as well as unit level bargaining. Since 1969, there has been industrywide bargaining in the four major industries: coal, engineering, tea and jute. Since the state has no clear-cut method of selecting the bargaining agent, all the party trade unions (PTUs) participate in negotiations and are signatories to the three year agreements. These agreements exclude the central public sector units and units employing less than 50 workers. Even though all the PTUs participate in negotiations, there are actually two groups which submit charters of demands to the employer organisations. These two groups are led by CITU and INTUC respectively. The rest join either of these groups. While the INTUC group consists of HMS, AITUC, NFITU and UTUC, the CITU group comprises TUCC, UTUC (LS) and AICCTU.

In case of central public enterprises, each company has its own companywide bargaining. Coal India, for instance, has national level negotiations and signs company level agreements. In industries other than the four mentioned above, such as chemicals, pharmaceuticals, fertilisers, paper, leather, etc, there exists unit-level bargaining. Even in the case of the four industries mentioned above, there exists unit level bargaining in case of large units which have the capacity to pay more than what the industry agreement prescribes. Companies like Philips, Siemens, Bata, Lever, Indal, etc, sign unit level settlements with their respective unions.

Whatever the level of bargaining, the state has no accepted and uniform practice of recognising a bargaining agent. As a result, very often, managements adopt the easiest path of recognising, either formally or informally, most of the unions, that is, all those that have party backing and 'nuisance value'. This situation has given rise to two consequences. One, this motivates PTUs to start a union either at the unit level or at the industry level, even if they do not have any following. Second, in the absence of any clear democratic procedure to establish the majority union or unions for the purpose of recognition, trade unions adopt various methods to demonstrate their strength such as gate-meetings, demonstrations, departmental strikes, gheraos, and so on. There are only few cases, particularly among the multinational companies, where on the insistence of managements the bargaining agent is elected through ballot

It is interesting to note that CITU which has been fighting in favour of secret ballots as the method of recognising trade unions at the national level, is hardly enthusiastic about implementing it in its own home state. In the late 1970s, when CITU was confident of its popularity and following among workers in West Bengal, the ruling party had passed a bill in the state assembly providing for a clear procedure for recognition. This bill subsequently received the president's assent in 1994 and has been referred by the state government to a study committee for formulating rules and regulations. According to this law, only those unions which have an individual membership of at least 10 per cent of the total workforce were eligible to participate in the joint negotiating council. And, for a union or a combination of unions to sign settlements with managements, it or they should have a minimum of 51 per cent of the total workforce as their members. The bill stipulated that membership of a union should be established through a secret ballot. Given the present situation of CITU's support among the rank and file, which we shall discuss later, neither CITU nor the CPI(M) is keen on implementing this law. According to non-CITU unions in Calcutta, reference to a study committee is a way of delaying the implementation. In any case, none of the opposition unions is keen on facing a ballot either. Therefore, keeping the new law under wraps seems to suit all the party unions.

ALTERNATIVE FORMS

While it is true that the dominant form of trade unionism in West Bengal is centralised party unionism, there are also pockets of 'independent' trade unionism in this region. We can broadly categorise such unions into two groups. One, those unions which have remained independent and unaffiliated to any PTU more or less since their inception. These unions exist in large, high profile companies such as Lever, Bata, Indal, etc. These companies typically employ educated workers who are paid relatively higher wages than those in the traditional industries. Also, these units, because of their higher wages, fall outside the industrywide agreement and sign separate unit-level agreements with their respective managements. In the second category fall those unions or 'quasi-union formations' which have mushroomed during the last four to five years, as a reaction to the ineffectiveness of the PTUs in taking up their problems. While the bulk of such formations exist in the jute industry, there are some in the engineering industry as well. Let us examine some cases of both the above types of unionism in and around Calcutta.

Bata: Bata has a single union, which at one time was affiliated to AITUC. This affiliation, today, is only on paper and has no practical relevance. The union conducts elections every year. While at the departmental level all the positions are contested by the employees themselves, in the executive committee, four positions are thrown open for external leaders. Leaders from almost all the party unions, particularly CITU and INTUC contest these elections. Normally each PTU puts up its own panel of four candidates. In 1994 INTUC held the leadership while in 1995 CITU came to power.

Hindustan Lever: Hindustan Lever, a well known soap and detergent manufacturer, has one of its largest factories located in the Garden Reach area, a major industrial suburb in Calcutta. It employs about 1,800 workers. There is only one union in the factory which at one time was affiliated to INTUC, but later, by default, disaffiliated itself, and ever since remained independent. Though a single union, there have been three major factions within the union: two belonged to INTUC and CITU, while the third was an independent group led by an outside leader who was

formerly a CPI(M) party member and a CITU leader but later resigned from both, protesting against their policies and practices.

According to the union constitution the office-bearers have to be elected once in two years through secret ballot. The CITU group which came to power in the early 1980s kept postponing elections under one pretext or the other. In 1986, the CITU leadership signed a settlement with management which was resented by the workers. In a secret ballot election which it was forced to conduct in 1987, the panel put up by the independent group came to power. In the same year, management decided to close down one of the departments manufacturing Rin detergent, and retrenched 300 contract workers. The union opposed the closing down of the department, and workers went on a flash strike. Management immediately suspended all the union executive committee members. Workers continued 'go slow' for six months, and management retaliated by derecognising the union. In its place, management formed a yukhta committee comprising of the leaders of the INTUC and CITU groups, and through this committee announced an *ex gratia* payment of Rs 500 for only those workers who resumed work. Workers did not respond to this and continued the 'go slow'. In the meantime, management retrenched another 100 workers in the Rin department. This was followed by a massive offensive by the management on workers in their houses located in the nearby slum. Police raided houses of workers, and about 300 to 400 policemen were posted inside the factory in order to create panic among workers. Musclemen, allegedly deployed by the leadership of the rival groups, unleashed terror in residential areas of the workers. Management at the same time also managed to keep away journalists, and there was a complete blackout in the media.

The union moved the high court questioning the *locus standi* of the yukhta committee to negotiate with management on behalf of workers. The high court ordered a secret ballot election. The management along with the yukta committee appealed to the Supreme Court which, however, upheld the high court judgment and ruled that the high court must deploy an officer to conduct the elections. The management appealed to the court saying that the election could not be held in the factory premises as there was a risk of violence inside the factory. The court ordered that the election be held in the premises of Calcutta Municipal Corporation. The chairman of the corporation refused permission saying that the CMC was preparing for the Tricentenary celebrations and an election in its premises would vitiate the atmosphere. The high court then ordered that the election should be held in the nearest police station. The police authorities refused to hold election in their premises as the land did not belong to them. When the union again appealed to the court, the judges, in utter disgust, ordered that the election be held in the high court premises itself.

At this stage, the management pleaded that it would not be appropriate to hold a union election in the high court premises, and finally agreed to hold election in its factory premises. By now, altogether three years had passed from the time the court first ordered the ballot. Despite threats from the established unions not to participate in the elections, workers turned up in large numbers and voted. The independent group won all the 21 positions with a thumping majority.

After the election, the first issue the union took up was the issue of the retrenched contract workers. The management agreed to take back 100 workers in a phased manner. In the next election conducted in 1993, the independent group again came to power despite the fact that this time round the INTUC and CITU groups put up a joint panel.

Indian Aluminium (INDAL): The Indal factory is located in Belur which is an important industrial centre in Howrah district. It employs 1,300 workers. The first union was registered in 1944. A year later the office staff moved out and registered another union. In 1949, however, both the unions merged into one union called Indian Aluminium Belur Works Employees' Union which has all along remained unaffiliated to any PTU. In 1965, a group of workers moved out of this union and formed another union and affiliated it to INTUC. This union has only 150 members while the independent union which is also the recognised union has 1,150 members.

The independent union conducts elections every year to elect the 44-member executive committee which, in turn, nominates the office-bearers. Very often the EC members are decided beforehand through consensus, and it is only occasionally that a ballot is conducted. The president of the union remarked: "I have been the president of this union for the past 12 years, and on all occasions I was elected unopposed."

Asked why they chose to remain independent, a senior office-bearer of the union said: "Our members realise that we can manage our affairs efficiently without any affiliation. So they see no need for external affiliation. For instance, recently there was a proposal by our management to merge our company with Mahindra and Mahindra. We opposed the proposal tooth and nail, as there was no guarantee that our service conditions would remain the same. We acted swiftly and moved the high court and obtained an order in our favour. We have never made our members feel that without affiliation we are weak. On the other hand, the PTUs have a tendency to centralise all issues, keeping workers in the dark. We know our specific situation much better, which the outside leaders do not."

Why do workers seek affiliation in the first place? The president answered: "They do so because they lack confidence in themselves. All our members are educated and are confident that they can manage their affairs on their own."

Indal is one of those few companies in West Bengal which pays much above the industrywide agreement. Bargaining takes place once in three years at the unit level, and management signs agreement with the recognised union. However, at the time of negotiations even INTUC presents its charter of demands, and if the management wants to concede any of these demands, they are incorporated into the main agreement.

Indo-Japan Steel (IJS): IJS is a mini-steel company established in 1966. It manufactures manganese, stainless and mild steel. It has an annual sales turnover of Rs 12 crore and employs about 900 workers. Its only factory is located in Belur, some 10 km from Calcutta. It has only one union which is not affiliated to any of the PTUs. The union was affiliated to INTUC only briefly for a year in 1976. During this year there had been a lock-out. The president of the union recollected: "When the management imposed the lock-out, we ran from pillar to post for help. We met various ministers including the chief minister. Nobody helped us. We received very little support and help from INTUC leaders. That is when we realised that we should not depend on any external leadership. We did not renew our affiliation the next year, and it automatically got cancelled."

In the late 1980s the company ran into difficulties, and in 1990 it was declared sick and referred to BIFR. Three years later, BIFR ordered the liquidation of the company. The management took the matter to the Appellate Authority of Industrial Finance and Reconstruction where the revival package submitted by the management is pending now. In the meantime, in May 1995, management 'suspended operations' and closed down the unit. Fearing that the factory would be permanently closed, workers forcefully took possession of the factory, and have been ever since guarding it. They are confident that they can run the factory on their own and make it profitable again.

In responding to a crisis situation, the union leadership feels that being an independent union is advantageous in several ways. The president of the union said: "We are free to approach any body for support without hesitation. We are free to decide our destiny without any political compulsions. All our decisions are taken in our general body meeting."

The management was, however, not very comfortable with this kind of union leadership

which was very close to its membership. In 1993, with the help of the local BJP unit, it had tried to install another union to counter the existing one. But the effort failed miserably with workers chasing the intruders out of the factory.

Talking about the political trade unions a worker said: "The political trade union leaders make the union work appear very complicated. That you should know English, various legislations, etc. When Kanoria workers formed an independent union political leaders mocked at them saying, "Now you have formed a union of your own. Can you go to Delhi and talk in front of the big people? Let's see how far you will go." But, I tell you, an independent union is the real union. We get to know everything. In fact, during our negotiations every evening we have a meeting to chalk out our strategy. As far as information is concerned, we are never in the dark. On the other hand, when political unions negotiate, workers know nothing about what is going on. In many cases after the settlement is signed, it is through the management and not through their union leaders that they come to know of what has been agreed upon on their behalf" (translated from Bengali).

In 1994, the IJS employees' union undertook an activity which was rather unusual for a union. The union decided to set up a community hospital for its employees and also for the general public. It took permission from the management and occupied an abandoned building adjacent to their factory. It contacted a group of junior doctors to work for the hospital during their free time. All the furniture required for the hospital called Shramjibi Swasthya Prakalpa (SSP) was made by workers themselves from the scrap that was available in their factory. A year later now, the union is proud of the number of activities taken up by SSP. During this period SSP has conducted about 250 surgical operations. Annually it conducts 'operation campaigns' in the local villages to conduct hernia and hydrosil operations. SSP also has conducted some very complicated surgeries in the past few months. The case of a truck driver is particularly noteworthy. This patient had met with an accident in which his leg was badly damaged. He was kept in the local hospital for 15 days after which he was told that his leg had to be amputated. IJS workers brought him to SSP and called a surgeon who was on their panel. The surgeon said that there was no need for amputation provided surgery was done within 36 hours. The problem however was that for the surgery a special type of imported surgical table was required which cost about Rs 20,000. There was only one such table available in a private clinic in Calcutta Getting the surgery done there was also quite expensive which the patient could not afford. Immediately, the union sent a team of workers to this private clinic to see the table. The team came back with rough specifications of the table, and within eight hours made one in their factory. It was installed in an hour's time and the surgery which took nearly ten hours was completed successfully.

The president of the union said: "The most important reason why we started SSP was to relate ourselves with the local community. It is very important to have the support of the local community. What usually happens is that when we are doing well we hardly care for the community. But when a crisis strikes, we immediately rush to people for their support. When you don't care for them, why should they support you when you get into problems. They see you just as self-serving people. Through SSP we maintain a relationship with the community on a regular basis. It has brought us a lot of goodwill in the community. The second reason is to make our own workers think of their union as something more than a mere negotiator for more money. We want them to have a better identification with the union and involve themselves in its activities. They should feel proud of belonging to their union, and that it has an ideology."

Jute Industry

Traditionally, as discussed earlier, the jute industry has been the bastion of the party unions, and the agreements were signed at the industry level. The jute industry has been going through a deep crisis during the last decade, which is evident in the number of lock-outs that took place in the industry. On the trade union front also there have been changes during the last 5-6 years. The most important change has been that of workers rejecting the party trade unions and forming their own independent unions. The most widely publicised example was that of Kanoria jute mill. In addition to this there have been several units such as Victoria, Hanuman, Baranagar, etc, where this change has taken place. Let us examine some of these cases.

Victoria Jute Mill: The recent events of Victoria Jute Mill are perhaps the most dramatic expression of the rejection of party trade unions by ordinary workers. The mill is one of the four mills owned by Titagarh Company which is owned by a Britisher, R J Brealey. The day-to-day management of the company is done by a raw jute trader called R K Jain. In October 1993 which was festival season in Calcutta, the workers demanded that their weekly wages and the annual bonus be paid to them before the 22nd of the month. It is a common practice among companies in Calcutta to pay the annual bonus and arrears, if any, before the festival season begins. In a tripartite meeting with the labour commissioner, it was decided that the money should be paid to the workers on October 17. But, on that day the money was not paid. The management assured the workers that their dues would be paid in two days' time, and their pay slips were also issued. This was also not done and there was no trace of the promoter. On October 20 the workers got agitated, and what was interesting was that the wrath of the workers was not so much against the employer but was on the trade unions. They attacked the houses of the union leaders of all shades – INTUC, HMS, CITU and AITUC. They even assaulted some of them. Almost all the union leaders fled the area, some lodged FIR with the local police, and seven workers were arrested.

The next morning, about 1,000 workers assembled before the police station and demanded the release of their colleagues. When the police refused to release them, the workers again attacked the union offices

belonging to the INTUC, CITU and AITUC, situated near the mill gate. A scuffle broke out among workers and the three armed policemen who were posted near the mill gate. The police opened fire and workers also retaliated. Several workers were injured and one policeman was seriously injured and later died in the hospital. The police went on a rampage in the workers' colonies and arrested 30 workers. The employer took advantage of this situation and declared suspension of work.

In Victoria, such spontaneous outburst against the party unions however did not take any concrete shape as in the case of Kanoria which we shall turn to now.

Kanoria Jute Mill: Kanoria jute mill is the most publicised case of what is generally referred to as 'self activation' of workers in West Bengal. Located in Howrah district, some 20 km from Calcutta, the mill employs about 4,000 workers. For the last five years the mill experienced sporadic lock-outs and closures, as a result of which management owed a substantial amount to workers in the form of PF, gratuity and other dues. Vexed with complete indifference and callous attitude of the recognised trade unions to their demands, sometime in the early 1993, workers, *en masse*, deserted the established trade unions and formed an independent union called Shramik Sangram Union (SSU) In November, lead by the SSU, workers went on a sit-in strike demanding their accumulated dues. Within two days, the management retaliated by 'suspending operations' which though technically different from a lock-out, actually means much the same. About a month later, in an unprecedented move, workers forcibly entered and took possession of the factory, and resumed production. The SSU made an appeal to other industrial workers and the general public for support. There was spontaneous support, including financial, from all corners, with which the union managed to pay the wages to workers. The SSU also ran a community kitchen to feed the workers. In the meantime, the owner of the factory moved the court and obtained orders preventing workers from selling the product in the market. The court, however, allowed workers to stay within the factory premises.

The reaction of the CPI(M) and the CITU to these events was interesting. The party and the union leaders who otherwise vouch for class revolution in all their public statements, criticised what Kanoria workers did. The official position of the party and the union was that they were against workers storming in, taking over and starting production. They said that the SSU was misleading workers. Further they also started a campaign to malign the SSU saying that the union was being financed by a rival industrialist. Such false allegations notwithstanding, public support to Kanoria workers was unprecedented, to the point that the CITU could no longer stay away from what the media dubbed as 'a historic struggle'. A tripartite meeting of management, labour commissioner and the recognised unions was convened to discuss various grievances of the workers. The SSU was however kept out of this meeting saying that it was not a recognised union. The SSU organised a gate meeting and asked workers whether they would accept any agreement signed by the recognised unions without involving the SSU. Workers unanimously said they wouldn't. In the meantime, following overwhelming mass support to the SSU, chief minister Jyoti Basu agreed, much to the displeasure of the CITU, to meet with the SSU. He assured the union all co-operation in arranging for the sale of finished goods lying in the factory godown. Subsequent to this, the SSU also submitted a proposal to the BIFR to run the mill as a workers' co-operative. The matter, after nearly a year, is still pending with BIFR.

Shree Hanuman Jute Mill: The Hanuman jute mill, a family-owned company, employs around 4,000 workers. It is yet another example of ordinary workers fighting against not only the employer and the state machinery but also the trade union establishment. Owned by the Jalan family prior to 1991, the company went through serious problems due to family quarrels, lack of funds, lock-outs and strikes. The company was referred to the BIFR which in 1989 ordered liquidation. It was around this time that workers lost faith in the three recognised unions that represented them, and formed a separate independent union called Majdoor Samithi. When the BIFR ordered liquidation Majdoor Samithi petitioned the BIFR requesting it to give them some more time to come up with a revival scheme. The mill was closed in 1990, and opened only when the Jalans leased it out to another industrialist called Bajoria.

In 1991, within a few months after Bajoria took over, there was again an industrywide strike, and the company was closed down once again. Even after the strike was withdrawn, the mill remained closed because during the period of strike Bajoria had absconded. When workers went to Jalan and gheraoed him, he told them that he no longer owned the mill, and it was Bajoria who owned it. The mill remained closed for months, and Majdoor Samithi leaders ran from pillar to post for help. They approached all the party trade unions, but nobody came to their rescue. The workers gave a deadline of October 1, 1992 to the owner for reopening the mill failing which they threatened to break open the factory gates and take possession of the plant. The superintendent of police intervened and assured the workers that he would persuade the owner to reopen the mill. That was the moment when the recognised party trade unions jumped into the fray and met the owner for negotiations. In no time they arrived at a settlement with the owner, agreeing on behalf of workers that they would take a wage-cut for four years if the mill reopened. The Majdoor Samithi went to court and brought a stay against the agreement signed by the recognised unions. The Samithi also produced evidence before workers that the party unions had taken bribes from the owner to sign the settlement.

The mill was, however, opened in mid-1993. The Samithi claimed that it had the majority of workers with it, and that the management should negotiate only with it and not the party unions. It also demanded secret ballot elections to settle the question of union recognition. The management paid no attention to this demand. In December, the term of the provident fund trustees and members of the works committee had expired. The Samithi immediately demanded elections which the management could not refuse. In the ensuing elections the Samithi won three out of five positions in the PF trust and seven out of nine positions in the works committee, with a majority of 85 per cent of votes.

As soon as the Samithi candidates took over these positions they started demanding regular payment of PF contribution. The Samithi leaders proudly claimed that in comparison to the management contribution of Rs 40 lakh in the year of 1993, within 18 months from January 1994 to June 1995, they have forced the management to deposit Rs 5 crore. Despite the modest success the Samithi had in establishing its credentials and support among workers, its leadership is still facing constant threats and pressures from the party unions to give up the Samithi and join them. One of the secretaries of the Samithi said, "Surely our life is in danger. Confrontation with the CITU is not an ordinary thing here in our region. Almost every day we receive some kind of threats from the CITU people. They have made our lives difficult. We have been particularly targeted because we are surrounded by closed mills where the CITU is the recognised union. For the CITU, we are a bad example because we have thrown the party trade unions out and through our own efforts managed to keep the mill going which they have been unable to do".

Other Alternatives

The events in the jute mills discussed above are a clear sign of workers protesting against the party trade unions. There are a large number of jute mills where workers have formed 'save committees' comprising all the workers irrespective of their union membership. Such committees have mushroomed during the last four or five years even in the engineering units whose existence is threatened.

While these events are the rumblings of worker protest at the micro-level, there is also a search for alternatives at a macro-level. There are at least three independent and amorphous groups-not unions – which are working towards an alternative to the party trade union bureaucracy. These groups are: Nagarik Mancha (NAM), Marxwadi Mancha (MAM) and Shramik Sangram Committee (SSC). Of the three groups, the first group is perhaps the most developed and well organised in terms of articulating workers' interests. It is useful for our discussion to examine this organisation in some detail.

Nagarik Mancha (NAM): This is an independent voluntary group established in 1989. Initially, the group devoted itself to the cause of industrial sickness: to study the problem and help workers in protecting their jobs. But subsequently, it enlarged its scope to include labour concerns such as various social security measures and their administration, occupational health and safety, and environmental issues. The group consists of individual volunteers drawn from various walks of life having concern for the working class. The volunteers spend their private time for NAM activities. Within a short span of its existence, NAM has become well known in the labour circles in and around Calcutta, primarily through its involvement in various struggles of workers against industrial sickness, and secondly, through its number of publications. NAM brings out regular monthly bulletins in Bengali and English, pamphlets on a wide-range of subjects concerning labour, and occasionally books too, both in English and Bengali.

The NAM volunteers do not see their organisation as an alternative trade union organisation, but rather as a resource group to assist labour in their struggles. A volunteer commented: "We don't intend to be one more central trade union organisation. It doesn't serve any purpose. You will merely have one more organisation. And if we become one, what is it that we would do ? Like all others we may get more wages for workers. We have many examples of independent unionism, for example, in the Mumbai region. But, in our opinion that is not a sustainable form of trade unionism. One of the alternatives that we can think of at this juncture is worker co-operatives. That is the reason NAM originally started with the objective of working for the cause of sick enterprises".

The NAM does not take an antagonistic stance towards party trade unions. Wherever required it also works with them on issues common to labour. A senior volunteer and also one of the founders of NAM said: "We don't see the situation in black and white. Just as party trade unions have their limitations and weaknesses, independent unions also have their limitations. NAM is with workers whether through party unions or through majdoor committees which are formed by workers themselves. The latter we see as a positive development because it is a protest against the established trade union bureaucracy which has, over the years, become an end in itself. However, the problem with independent unions is that they do not have a long-term perspective. They are concerned with their own immediate problems. For instance, jute workers (i e, mazdoor samithis) do not think they have anything to do with the problems of the jute cultivators. You see, you cannot solve problems in isolation. The industry itself is going through a crisis. The problems must be tackled at a broader level. Bachao committees may save some units from sinking, but if the industry itself is sinking, what is the point in trying to save units. So, to the extent they take a narrow view of the problems they cannot become an alternative to the central organisations. A true alternative should have several other elements. Therefore, taking all these issues into account, we see the independent unionism as only a transitional phase, at least in West Bengal".

Bachao committees, a type of union formation, have mushroomed in a number of units which are under the threat of closure. These are ad hoc committees formed by workers coming together to pool in their efforts to save their companies from closures. The NAM has been quite instrumental in introducing this idea in 1990, which has now become a trend in the state. A NAM volunteer explained: "Bachao committees are not registered bodies. They are ad hoc committees formed by workers themselves with a specific purpose, i e, to save their jobs. Typically, what happens is that, in a multi-union situation when workers realise that their jobs are at stake, and find that the party unions cannot fight for them, they come together and form a bachao committee to co-ordinate their activities in making representations either to BIFR or to the government, or to undertake a campaign to save their unit.

"Initially, when we suggested this idea to the workers, the question arose whether these committees should be registered, so that they have a legal status. We felt that there was no need to register a new body or a union. That would only put the party unions on the defensive, and you cannot accomplish anything by doing that. What was required at this moment was not to antagonise these unions but to seek their co-operation and unite workers for a specific purpose. In any case, the very formation of a bachao committee is a reflection of the failure of party unions, at least in their present form. But bachao committees initially ran into a serious problem, i e, nobody, particularly the government, was willing to recognise them as the representatives of workers. It took us nearly two years of fight to make government and BIFR to recognise bachao committees as legitimate representatives of workers. We have always told workers that forming a new union and registration are the least important matters. What is really important is to be united and struggle for a cause."

During the last two years, the NAM was also a part of the initiative by a group of independent unions in and around Calcutta to form an umbrella organisation. This organisation with a membership of some 50 unions is called the Mazdoor Adhikara Rakha Committee (MARC – Committee for Protection of Labour Rights). This is still a fledgling organisation which has had only a few meetings of its members so far.

The other two voluntary groups mentioned above, MAM and SSC, function as

independent groups without any formal structure. MAM has a number of independent unions under its influence and leadership in the Panihati area, while the SSC has been spearheading an independent movement in the Garden Reach area. Unlike the NAM which is known in a broader spectrum of industries, both the MAM and the SSC are well known in their respective regions. What is common to these three groups is that all of them are in search of an alternative trade union movement and trade union politics. Their reluctance to give themselves a formal structure is an indication of this search.

In West Bengal, within trade union circles, there have been two major reactions to the above developments. The voluntary groups mentioned above view these developments as signs of an alternative trade union movement emerging in the state. The developments, particularly, in the jute industry are viewed as 'self activation' of workers. The second reaction, that of the party unions, has been that these are merely some isolated instances with no wider significance.

While it is premature to describe these developments as signs of an alternative movement, the dismissive attitude of the party trade unions is also not justified. These developments, however, are not without deeper significance. What they clearly bring to light is the inadequacies and the limitations of the party trade unions. Their failure to respond to the present crisis.

For the purpose of our analysis, let us distinguish between the two types of independent unionism described above. The first type exists in large, high profile, modern factories such as Bata, Lever, Indal, etc, employing educated, skilled and relatively well-paid blue-collar and white-collar workers. In all the four cases described under this category, the tension between the party trade unions and the independent groups is evident. In the Indal factory this confrontation is minimal with INTUC more or less accepting minority status. Bata workers have evolved a middle path of retaining their autonomy and at the same time maintaining links with the outside party union leadership by electing them from time to time.

It is in the case of Lever that we see the confrontation in its most intense form. The case brings out in a dramatic fashion certain characteristic features of the party trade unions. Over the years, the PTUs have become highly centralised and top-down organisations with little or no direct communication with their membership. Internal democracy has been totally absent in their way of functioning. Secondly, they have reduced trade unionism to mere wage bargaining, thus lacking the ability to respond to any other crisis affecting their membership. Thirdly, to all the PTUs, their own survival has become an end in itself. As exemplified in the Lever case, the PTUs do not hesitate even to collude with managements in order to survive, even at the cost of workers' interests. This survival instinct is common to all PTUs, in the sense, when confronted with an independent group even rival PTUs come together on a common platform to fight it.

The case of Indo-Japan Steel union brings out two important issues. First, that some managements prefer and are more comfortable with party trade unions rather than with a democratic and internal union. The reasons are obvious. In the case of PTUs, they have to deal with just one of two outside leaders whom they can manoeuvre, whereas in the case of an internal union which is democratic they have to deal with leadership which has direct communication with the workforce. The second issue relates to the very definition of trade unionism. IJS union has demonstrated, through its activities, that a trade union can be much more than a mere wage bargainer

The second type of independent unionism is found in the jute industry. The formation of bachao committees and majdoor samithis in jute mills is a clear reflection of the redundancy of party unions which have been responsible for deep fragmentation of labour in every unit. Such fragmentation suited these unions as long as their job was merely to negotiate wages and sign settlements or sit on various committees formed by the government, or for that matter do a number of things on behalf of labour. However, when the question of fighting against closure or job losses came, which required all the workers to fight as a united force, their limitations and contradictions immediately surfaced. Bachao committees and majdoor samithis are spontaneous bodies reflecting the immediate needs of workers. The PTUs feel threatened by these developments because they also reflect their weaknesses and failures.

In the ultimate analysis, what does the growth of independent unions mean? As stated earlier, the redundancy of the PTUs is obvious. But, are independent unions capable of emerging as an alternative movement? Elsewhere in the country, particularly in Mumbai region, the experience with independent trade unions has been that they tend to be isolationist. They are relatively more democratic than the PTUs, but their concerns are limited to their own micro situations. Even after nearly four decades of their existence, the independent unions in Mumbai have not been able to come together to build a wider movement, i e, an alternative to the party unionism.

Independent unionism in West Bengal can at best be seen as a healthy and legitimate protest against the redundant party trade unionism. What needs to be done further is to evolve creative trade union ideology and politics. Independent unions can provide alternative only at the unit level, but not in a wider context. What we need today is an alternative movement in a wider sense. The hope lies in the fact that the voluntary groups working with labour in West Bengal are thinking along these lines.

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Operationalisation of Flexible Specialisation

Agra's Footwear Industry

Peter Knorringa

Even though no industrial cluster in the world can live up to the flexible specialisation model, it does generate ideas useful for exploring possible roads ahead for low-tech craft-based clusters in India. In this paper the authors argue that a comparative advantage in manufacturing quality-competitive hand-made shoes can only be achieved if workers are not treated only as a cost but also as an asset. Still, at present most workers in Agra manufacture low quality products under sweat-shop rule. A shift to more quality-competitive production with better employment conditions seems feasible because of, firstly, the present underutilisation of artisanal skills, and, secondly, booming market niches for fashionable artisanal designer shoes. However, such a shift is impeded by caste-based antagonism, omnipresent instability and the use of outdated technologies.

I
Introduction

SEVERAL recent studies have raised the question whether the concept of flexible specialisation is useful in analysing industrial developments in the third world [Pedersen et al 1994; Rasmussen et al 1992; UNCTAD 1994; for a focus on India see Galhardi 1995; Holmstrom 1993]. Unfortunately the discussion appears to have got stuck at a too broad-brush level of analysis, where authors can easily use the concept to construct 'new' caricatures to prove 'old' ideological stands. Flexible specialisation has turned into a catch-phrase that means too many different things to different people, which provides an excellent reason to discard the concept completely.

However, to avoid throwing the baby out with the bath water, we propose to 'unpack' the concept.[1] In this paper we attempt to operationalise the concept of flexible specialisation in the context of small-scale manufacturing in Agra's footwear industry. We argue that, while approximately 80 per cent of footwear labour in Agra appears to be trapped in a vicious circle of sweat-shop employment, the significance of a small but viable segment of the cluster can be best-analysed with an unpacked flexible specialisation concept. The crucial question then becomes: can such an analysis contribute to a better understanding of options to increase the share of more attractive employment in more flexible and more specialised firms? We think it can, to some extent.

Moreover, there is urgency to this question as craft-based clusters are more and more driven to market niches and just continuing to rely on sweat-shop practices will lead to shrinking employment at deteriorating conditions. This provides a very strong reason to look seriously at other options. So, its importance lies in the inevitability to confront the issue of employment options facing the artisanally skilled in India [Mathew and Joseph 1994]. As a shift towards more quality-competitive production perhaps offers a way out for a small but significant group of artisans in particular industries it is worthwhile to further investigate this question.

In Section II we try to thrash out some useful ideas from the flexible specialisation discussion in the context of craft-based production in India. The remainder presents findings from a case study on Agra's footwear industry, undertaken in the winters of 1990-91 and 1992-93. We start by briefly introducing the peculiarities of Agra's institutional setting (Section III), followed by a description of current employment conditions (Section IV). Next, we distinguish three possible roads ahead (Section V), focus on the feasibility of the most attractive option (Section VI), and aim to list some targeted policy contributions (Section VII). Finally, some concluding remarks are made in Section VIII.

II
Thrashing Out a Useful Concept

The flexible specialisation debate feeds into a wider stream of literature on high versus low road industrial development [Hirst and Zeitlin 1991; Sengenberger and Pyke 1992; for a more critical view, see Storper and Walker 1989]. From the labour perspective, the low road is an organisational strategy in which leading actors see labour only as a cost factor, while in a high road leading actors see workers also as an asset [Sengenberger and Pyke 1992]. These distinct attitudes towards labour broadly mean that, while in the low road strategy leading actors will just try to minimise the cost of labour, in the high road leading actors realise that, in order to be able to achieve better quality and continuous quality improvement, employment conditions should incorporate elements of a socialisation process which will aim to impose a sense of overall responsibility on all specialised participants. In its stylised form, the high road relies on selective and durable collaboration between specialists, resulting in a continuous qualit improvement while maintaining flexibility Similarly, in its stylised form, the low roa is a desperate race for ever lower labour cost based on cut-throat price competition.

Asheim's definition of flexible specialisa tion provides an appropriate starting point "...a particular strategy for competitiv success based on efficient and flexibl production and marketing of quality competitive products..." [Asheim 1992:50] Within the context of clustered small-scal manufacturing of artisanal products such flexible specialisation strategy can be furthe operationalised as a premium-artisana strategy, in which leading actors focus o volatile premium market niches that attac surplus value to quality-competitive artisana products. Such a premium-artisanal strateg stands in sharp contrast to a sweat-sho strategy based on low quality, low cos products, and sweated labour. While a sweat shop strategy typically represents the lov road industrial growth path, a premium artisanal strategy may deliver at least som of the benefits of the high road industria development model.

The basic point for the subsequen discussion is that conditions of employmen necessarily improve if leading actors ar more oriented towards higher road strategies. This does not occur out of altruism, bu because leading actors realise that, in orde to achieve superior competitiveness in highe market segments, it is necessary to invest i labour and to stimulate collaborative inter action among actors. So, contrary to a lov road attitude towards labour, a high roa labour strategy simply requires a continuou two-way interaction between marketing an production. As skills in marketing an production are seldom combined in on person, more effective collaboration betwee actors with those distinct skills is seen as th key towards a higher road strategy. However researchers on clusters in developin countries do not find an overall thrust toward innovation, continuous quality improvemen

and good working conditions, as exemplified by the Third Italy case studies in Piore and Sabel's (1984) seminal work on flexible specialisation. But should we be surprised by that finding?

At first sight the recent European industrial district success stories from especially the Third Italy seem very relevant as an example for clusters in developing countries. These European industrial districts by and large share the following characteristics [Asheim 1994; Schmitz and Musyck 1994]. First, they tend to specialise in labour-intensive artisanal sectors, such as footwear, in which less developed countries are thought to enjoy a comparative advantage. Secondly, the industrial districts are built on local firms, mainly of small and medium size. Thirdly, these districts are situated in regions that were rooted in small-scale agriculture and industrialised relatively late. Underpinning the 'high road' success of these Italian case studies are a common set of cultural and social values, creating a 'collective identity' [Best 1990], where 'collaboration is in the air' [Ottati 1994] and where there is a scarcity of skilled labour.

However, often a much too rosy picture is painted of these Italian industrial districts [Schmitz and Musyck 1994], and even the most exemplary clusters do not live up to the flexible specialisation or industrial district model, if such a model exists at all [Harrison 1992; Rabellotti 1995]. Also in Europe many clusters follow a low road path [for examples of low road European footwear clusters, see Amin 1989; Benton 1989; Solinas 1988].

Moreover, and this is of course crucial, clusters in developing countries are embedded in a fundamentally different setting [Amin 1994], so that the chances for a higher road strategy in a developing country like India appear to be even smaller [Holmstrom 1993]. As recognised by Schmitz (1990), widespread poverty and a labour surplus impact negatively on the options for moving towards a higher road industrial development path. At the same time, social cohesion and the integrating role of local institutions, the pet themes in the industrial district literature, appear to be less prominent in clusters in developing countries. Instead, internal segmentation appears to reproduce and even strengthen inequalities. Because of extreme differences in bargaining power between actors in the cluster, possible benefits from collective efficiency are skewed in favour of leading actors and market agents [Smyth 1992]. In such an institutional setting, cut throat price competition combined with sweating labour appears to be a more likely outcome, as compared to quality-competitiveness combined with good employment conditions. This applies to craft-based Indian clusters in medium-sized towns [Cawthorne 1995; Dupont 1994; Harriss 1982], as well as to less historically rooted clusters built on self-employment survival strategies in metropolitan areas [Alam 1994; Benjamin 1991]. Bangalore, with its hi-tech focus, may well be the exception to the rule [Holmstrom 1994].

Notwithstanding this overall trend, industrial clusters are often much more heterogeneous than recognised in the industrial district literature (Knorringa 1995). Even in an overwhelmingly low road sweat-shop cluster like Agra we find some firms that follow a relatively high road premium-artisanal strategy. But before we turn to Agra's heterogeneity we introduce some of its overall characteristics.

III
Agra's Institutional Setting

Agra, India's most diverse as well as most tightly knit footwear cluster, is a prime example of an artisanally rooted low-tech cluster with predominantly small-scale manufacturing units. On an uninterrupted working day, some 60,000 production workers, employed in around 5,000 mostly informal small-scale manufacturing units, produce approximately 3,00,000 pairs of footwear [Knorringa 1994]. Far gone are the days that a mass of homogeneous home-based artisans supplied only a few designs to traders. Agra now holds all kinds of specialisations, and inter-firm division of labour has modestly started to develop. Many varieties of footwear are produced in all sorts of manufacturing enterprises: modern small-scale factories with conveyer belts, workshops using a mix of modern and traditional technology, or home based units with only one or two manually-powered machines. Moreover, apart from a wide variety of potential buyers for both finished and intermediary products, inputs are widely available from nearby firms.

Notwithstanding this heterogeneity, Agra is (inter)nationally known for its specialisation in built-up shoes with leather-uppers, for which roughly three main segments may be distinguished that partly overlap. The first, supplied by sweat-shop firms, is a rock-bottom segment filled with loads of amazingly cheap and substandard shoes, mostly carelessly made copies of successful designs. The second and largest market segment, most efficiently served by large-scale fordist production methods, is standardised shoes, varying from low up to rather high quality, with relatively slow-changing designs. For the cheaper varieties, many leading actors have set up factories in 'low-wage' areas, undercutting classical fordism in costs, while taking some loss in quality for granted. As this strategy rests on cheap docile labour and leading actors regularly set up new production facilities in ever lower wage areas, this strategy is often termed a runaway strategy. The third and smallest market segment, served by premium-artisanal firms, is the volatile premium segment, filled with exclusive and fashionable designer shoes.

Two additional institutional aspects paint the scene of Agra's footwear industry. First, the industry is characterised by an omnipresent instability that stems from the increasingly volatile nature of demand for footwear, climatical nuisances, and from a range of local work interruptions. Put together, many actors appear to drift from one disturbance to the next, and improvisation is the name of the game [Knorringa 1995]. Second, Agra's footwear industry, like most craft-based industrial cities in northern India, is characterised by a caste-based antagonism between an artisanal community that makes the footwear and a trader community that sells. Forward caste Hindus from Punjabi or Sindhi background, Sikhs and well-to-do Muslims dominate Agra's footwear trade, while footwear workers in Agra predominantly belong to the scheduled caste jatav community. The mutually felt hostility between makers and sellers has far-reaching negative implications as it impedes the crucial professional collaboration between the people with marketing expertise and those with artisanal skills. Up to the 1960s, production used to take place almost exclusively in home-based units, of which the jatav head of the household would sell the produced pairs to a local trader who would sell to outside merchants. Since the 1970s this traders' community, as well as some new-comers, started to set up more organised workshops and small-scale factories in which they employ jatav artisans, because they felt a need to control quality and progress of production more directly [Misra 1980]. Consequently the caste-based identity clash, that used to exist mainly between trader and producer, has sometimes shifted to relations within workshops and small-scale factories. What remains is the central chasm that runs right through the heart of the industry.

IV
Present Employment Conditions

In terms of employment, around 50,000 out of the estimated total of 60,000 production workers in Agra in the winter of 1992-93 faced the low road employment conditions so characteristic of a sweat-shop strategy. Most larger firms have started to follow a runaway strategy, while direct exporters and suppliers to domestic premium market segments serve leading actors who follow a premium-artisanal strategy. While both the share of runaway and premium-artisanal employment is small, it

is important to reveal their characteristics as their share in future employment may rise significantly.

SWEAT-SHOP RULE

Though employment conditions in sweat-shops are always informal, insecure, and low paid, there are significant differences between the home-based direct-sales segment as opposed to the workshops making to order. In home-based units that predominantly use family labour, employment relations are an inseparable part of household relations and no clear-cut conflict of interest exists about wage levels and fringe benefits. Rather different is the situation in workshops run by white-collar trade entrepreneurs with hired jatav workers. Entrepreneurs offer only piece-rate jobs for as long as a specific order lasts. On Tuesday morning jatav gang leaders, as well as a range of independent skilled workers, swarm out to see the order position in various workshops, try to get a work-order and negotiate piece rates. Logically, the cutters are the first to initiate work, but they disappear after one or two hours. Also other workers can now only initiate part of the work, due to the chain system of production. After finishing they also disappear. On Wednesday morning they come again and ask for an advance, after which they agree to finish the rest of the order in accordance with the time schedule: usually Friday, sometimes Saturday. On Saturday they also settle the account: piece rates for that week's order minus the advance.

Entrepreneurs' main complaint against workers is that they cannot be relied upon to conscientiously come to the workshop when an order is available. But workers, following their own livelihood strategy, try to serve more than one entrepreneur at a time to come closer to a full-time workload, just keeping entrepreneurs satisfied enough to continue with them when they have another order. Although no formal ties exist between workers and entrepreneurs, intricate relations of obligation, debt and patronage exist. An entrepreneur must offer advances to get workers to complete an order, a worker wants to have some but not too much debt to an entrepreneur to keep the relation going, and so on. Relatively successful entrepreneurs and artisans have to play this delicate game of give-and-take.

All in all, the employment conditions under sweat-shop rule effectively pass on overall instability to the jatav community. Within jatav families, a highly flexible household labour allocation adjusts to the instability of the footwear sector. In the overcrowded home-based segment of last resort, returns to labour are pushed to subsistence level, especially in periods when employment in workshops is less. When work is plenty extra hands are almost always easy to find, while in lean times the little work is divided among many. In effect, without romanticising solidarity, poverty is shared. To and fro, extended family members share in each other's windfall gains, which acts both as a safety net as well as inhibits formation of financial buffers. Many jatavs are continuously in debt, mostly to local moneylenders, which is not a new phenomenon [see Lynch 1969:51; Misra 1980:111].

However, even in lean periods hardly any jatav artisans even try to move to other industries. In recent years some jatavs appear to have moved to producing readymade garments on piece rates, for which especially upper makers can use their sewing skills. Often, jatavs only reluctantly take up unskilled jobs in other sectors, proud as they are of their hereditary skill [Waardenburg 1993:170]. At the same time, because of their 'polluted' caste background, they are mostly banned from jobs in, for example, the hotel and catering industry (important in Agra, as tourism is the second main source of livelihood).

Moreover, poverty sharing is further enhanced by a slow but steady inflow of rural artisans with family members in Agra. Rural footwear artisans face a structurally shrinking demand due to increasing competition from widely available (nowadays also rurally) and accepted cheap plastic or rubber footwear. Besides, because of the ever higher prices paid for hides and skins, that are increasingly centrally collected and tanned in more modern, more value adding tanneries, less cheap leather is available to rural artisans [Naidu 1993].

From the 1980s onwards, a tightly knit group of wealthy families who form Agra's well-established footwear elite started to follow a runaway strategy. These entrepreneurs reached a point where they saw setting up conveyer-belt factories as the way forward. Why? To start with, they have access to the type of orders most efficiently produced under runaway conditions: large orders for standardised medium-quality shoes. But perhaps even more importantly, they were fed up with the presumed unreliability of jatav workers. A runaway set-up offers them a chance to get rid of their dependence on jatav skills because these artisanal skills count much less in a runaway environment. In line with a stylised runaway strategy, with factories straightforwardly run on taylorist principles, especially women are hired for the labour-intensive small-finger jobs in upper making. Such jobs are more regular as these women get monthly wages, assuring them of lower but more regular incomes as compared to employment conditions under sweat-shop rule.

Some 25 direct export units follow a premium-artisanal strategy, together with some 70 firms who serve the premium domestic market, either as suppliers of leading traders from India's metropolitan cities or one of the large Indian footwear concerns. Direct export units are predominantly run by non-Agra rooted professionals who strive for a smashing career in footwear by means of running a flourishing and modernising firm in which they reinvest most of their profits. They offer better employment conditions, especially a higher degree of regularity. Direct exporters as well as suppliers of domestic premium shoes often enjoy an overloaded order portfolio, so that they can offer more regularity to workers. Moreover, they also actually do offer better conditions as entrepreneurs in this segment consciously aim to utilise the surplus value of cheaply available artisanal skills. Although jatav skills are widely recognised, they seldom really come to the fore as they usually work with third grade leathers, cheap components and rusty nails. Yet a visit to any of the premium-artisanal suppliers employing jatav artisans shows that they can deliver high quality output when given high quality inputs. Even more surprisingly to the well-established trader communities, here jatav artisans tend to work more conscientiously and come more regularly.

Still, professional outsiders and jatav artisans are not friends, they simply collaborate professionally, enabling entrepreneurs to cash in on the resulting increased quality standards. At the same time, jatav artisans also profit as entrepreneurs offer higher road employment conditions. Nevertheless, as compared to world standards, even in an industry known for its low wages [ILO 1992b], wages in Agra are again dismally low. Still, entrepreneurs who serve premium-artisanal leading actors offer the least low road employment conditions, and pay good wages by Agra standards. Moreover, these outside professionals are less inclined to treat jatav artisans with the throttling hostility so characteristic of the well-established trader communities.

However, we should not get carried away by this promising observation. To be clear, more successful industrial clusters in terms of economic performance do not necessarily follow higher road employment strategies, nor do more successful entrepreneurs necessarily pay higher wages. But we can conclude that, firstly, a reasonable degree of entrepreneurial success is a *sine qua non* to enable improvements in employment conditions, and, secondly, to survive in the volatile, quality-competitive but also highly rewarding premium-artisanal segment, it is in the well-understood self-interest of entrepreneurs to offer higher road employment conditions.

V
Possible Roads Ahead

So far, we analysed existing employment conditions. In this section we look at a few options open to Agra's footwear industry and their likely employment implications. Although we continue to focus on employment aspects we also touch lightly on a few other possible industrial policy objectives: to increase total production and foreign exchange earnings, and to diversify the industrial structure. Three options emerge out of the three prevailing strategies.

The first option is to continue on the same footing, so that small-scale manufacturing units in Agra would remain to be hired predominantly for sweat-shop strategy orders. But stagnation means deterioration on two accounts. Slowly but surely, the historically most important market segment served by Agra's manufacturers, cheap hand-made leather-upper shoes for the impressive domestic market, is invaded by low-cost non-leather shoes produced in more capital-intensive factories. In this highly standardised, mass-market low-price segment, fordist production methods are unbeatable and will drive artisanal small-scale manufacturers more and more to niche markets. Some new employment opportunities may come out of indirect exports, the export variant of the sweat-shop strategy, but whether this would compensate the loss of employment opportunities in the domestic sector is hard to predict. Moreover, stagnation also means deterioration because the gap between the old Agra way of manufacturing shoes and new technologies and new strategies increases every year. More generally, the limited innovative capability of a sweat-shop strategy may well self-destruct in the long run [Benton 1989]. Therefore, the need to start a shift towards less low road employment and production methods becomes more acute each passing year.

Put together, a mere continuation of old practices would most likely result in a further deterioration of employment conditions: probably declining full-time equivalent employment opportunities for a growing community with limited alternatives. Not surprisingly, piece wages have not kept pace with inflation, but seem to be steady at best. At the same time, relative to employment conditions in traditional industries elsewhere in Uttar Pradesh, footwear appears to be not even among the worst. Nevertheless, if Agra continues on the same footing the footwear industry will fade away dismally, and employment opportunities, meagre as they may be, will fade away with it. This may take a long time, measured in generations rather than years, as the jatav capacity to absorb worsening employment conditions is desperately high. The prospect of such an involutionary process provides a strong reason to look seriously at other options.

The second option would be a substantial increase in the share of runaway firms. As noted above, jatavs rarely find employment in these new factories, populated by cheap and docile women workers: either young unmarried women or older women that have fallen on hard times. Relatively few of them are jatav women. According to a sample of women workers in small-scale factories in Agra, 18 per cent of women workers were jatavs, while 55 per cent originated from forward caste communities [Sundaram and Rao 1993].

Important benefits may accrue from following a runaway strategy. To start with, the women workers involved may be able to learn some skills, earn an income, and as a result possibly strengthen their bargaining position at home. On a macro level, these increasing income opportunities for women may well contribute to a more equal income distribution. Secondly, a runaway strategy can for a certain period achieve a substantial production volume for both the domestic and export markets, and thus diversifies the industrial structure. Moreover, it makes use of accumulated trade and marketing skills of the entrepreneurial footwear community in Agra. Lastly, although the conditions of runaway employment are not very promising, they are in some ways better than sweat-shop conditions.

However, if a runaway strategy were to gain momentum in Agra, this would most likely lead to massive displacement of jatav artisans. This might have little overall effect on employment if the runaway strategy would result in a similar number of new jobs with similar conditions for new people. However, this is unlikely as the stylised runaway strategy is a short-term strategy in two ways. Firstly, as a rule women workers take up this employment for a specific period in their life cycle ("until I get married", "until my daughters are married"). Secondly, the job itself may not last for long, as the business is, after all, going to 'run away' as soon as an equally good but cheaper production location is found. Yet for a particular period a runaway strategy can be very successful, as shown in examples both from India itself, e g, Madras and surroundings, and from other Asian countries like South Korea and Taiwan, and more recently China and Indonesia [ILO 1992a]. Still, quite apart from its inherent pros and cons, a runaway strategy is not the right solution for Agra's footwear industry. In following a runaway strategy, Agra would willingly forgo its main comparative advantage over other runaway footwear centres. Not using this comparative advantage means Agra would become just another cheap place to manufacture cheap shoes. But Agra has more to offer leading actors. Agra's footwear artisans are not just cheap and abundantly available but they are also skilled.

The third and most attractive option would be a substantial increase in the number of manufacturing units that supply leading actors who follow a premium-artisanal strategy. This would utilise Agra's main comparative advantage: the abundant availability of skilled as well as cheap artisanal labour. Instead of displacing artisans it would increase options for artisans to get access to higher road employment opportunities. Moreover, it kills two birds with one stone, as it also means entering more quality-competitive market segments, thus achieving a higher value added per pair as well as a more diversified industrial structure. This leaves two questions: is such a shift feasible, and if so, how can policy interventions encourage such a shift?

VI
Is Premium-Artisanal Manufacturing Feasible?

Feasible options exist to increase the share of premium-artisanal suppliers. Firstly, as shown above, it is in the longer term self-interest of local entrepreneurs to strive for an attachment to leading actors with a premium-artisanal strategy. Secondly, demand is booming for the cheaper varieties of premium-artisanal shoes that Agra is capable of supplying. Because of Agra's particular mixture of skills relative to costs, its manufacturers seem particularly suited to target the comparatively cheaper niches of the premium-artisanal segment, for which demand is especially high. Traditionally, premium-artisanal leading actors catered almost exclusively to high-income areas. More recently, two more options for marketing comparatively cheap premium shoes have emerged: exports to quickly growing premium segments in low- and middle-income countries, and the new premium market segment in India itself. As Agra can target this specific niche of comparatively cheap premium shoes, it need not compete directly with, for example, premium-artisanal manufacturers in Italy. Still, in this cheaper segment it does face direct competition from specific clusters in, e g, Portugal, Brazil, and Mexico, but not so much from other centres within India. Therefore, promising markets exist, especially in east and west Asia.

To be able to operate successfully in such premium-artisanal segments actors need to be flexible, fashion-sensitive and quality conscious. Two main impediments appear to hold back a substantial shift in favour of premium-artisanal manufacturing. Firstly, precious few signs exist that the bulk of Agra's trade entrepreneurs recognises the

attraction of premium-artisanal manufacturing. As long as these trade entrepreneurs can make satisfying profits by maintaining a *status quo*, and continue just to sell, their complacent attitude is not likely to change. Sellers will most likely continue to squeeze out short-term profits, without investing at least some of the profits again in the development of the footwear industry, thus further eroding future options. The strongly felt antagonism between makers and sellers in Agra, without any sense of interdependence, impedes interaction between carriers of the two main types of knowledge available in Agra's footwear industry: production skills and marketing expertise. Both groups are flexible as well as resilient within their own environment, but the two worlds do not meet to combine their knowledge. This may well turn out to be a fatal drawback, as the quality of the interaction between marketing and production is a decisive factor in whether actors are able to live up to the requirements of premium-artisanal manufacturing. As long as the overwhelming majority of Agra's white-collar entrepreneurs and jatav artisans fight each other instead of the competition, they do not stand a chance of entering premium-artisanal manufacturing, and, consequently, jatav artisans remain trapped in sweat-shop employment conditions. Moreover, the few outside professional entrepreneurs that are involved in premium-artisanal manufacturing have not worked themselves up from cheap sweat-shop orders but were attached to premium-artisanal leading actors from the day they set up shop in Agra.

Still, we should not lose all hope. History shows that the very successful clusters of today often also experienced bitter internal struggles before becoming prosperous, notwithstanding the collective amnesia once success came their way [Sabel 1992: 225-29]. Clearly, many other clusters did not outgrow their internal struggles and faded away. So, even though we stress that the present lack of professional collaboration is not a historical inevitability, this is not to say that a break-down of caste prejudice is around the corner, but just to say that what appears forever today might be overcome, has been overcome in other places in other times. At present, however, precious few indications point towards bridging the gulf between these two groups in the foreseeable future.

Secondly, even if sellers and makers would be prepared to start a process of professional collaboration, they have a lot of catching up to do. There is no easy short-cut to get quickly from the present archaic work methods to the new production methods used in premium-artisanal manufacturing. Moreover, this gap increases year by year. It may prove too big a gap to jump in one stroke, from sweat-shop production with its low road employment practices to premium-artisanal production with its high road employment conditions, as that is really a jump from one extreme to the other. The mental transformation needed may even be more daunting than the technical adjustments that need to be made [cf Humphrey 1993 on Korea]. For Agra, it may be more realistic to envisage a transition period of rather hierarchical but more stable and more professional employment relations.

Moreover, even when the two main direct impediments would have been overcome, the ultimate challenge lies in how actors in Agra will handle manifestations of the new. For example, a necessary but not sufficient condition to be able to enter and survive in premium-artisanal manufacturing is that all participants must be capable of carrying through last-minute changes in specifications. New and volatile markets simply do not allow leading actors enough time to standardise each and every activity, so all participants must be flexible specialists in their own field, able to judge and implement the consequences of any sort of change on 'their' activity.

Still, even in the most optimistic scenario only a rather small fraction of Agra's jatavs would enjoy the higher road employment conditions of premium-artisanal manufacturing. At the same time, Agra's labour surplus hangs over the cluster like a sword of Damocles. Moreover, sweat-shop employment conditions are most likely to become more and more desperate. Therefore, any attempts to increase the share of higher road employment conditions must be supported by policies to ease the labour surplus.

VII
Possible Policy Contributions

In our view, any appropriate industrial policy package for Agra's footwear industry needs to come to terms with the general finding that principal decisions that set the boundary conditions for employment in Agra are taken by leading actors, more often than not located far away, and anyhow elusive to India's policy-makers [Knorringa 1995]. Therefore, industrial policy-makers should unassumingly limit themselves to support an enabling environment [UNDP et al 1988]. In short, we propagate a two-sided approach to encourage a shift to premium-artisanal manufacturing. Firstly, support attempts to increase Agra's attractiveness to premium-artisanal leading actors. Secondly, support attempts to ease the undermining labour-surplus effect on higher road employment conditions.

At present, India's policies towards the footwear sector focus primarily on adjusting to an export runaway strategy [UNIDO 1990; Sahasranaman 1993; Rao 1993]. Policy-makers and industrialists aim to prevent the actual 'running away' by slowly capturing more phases in the marketing and production chain and, subsequently, to move slowly but surely towards somewhat better employment conditions. Such a policy may be appropriate for India in general, as most of the better known firms have entered into the footwear industry from a leather tanning background. These firms are long standing suppliers of main European leading footwear firms. While the Indian firms previously supplied finished leathers, and before that semi-finished leathers, they now also prepare uppers and increasingly full shoes for these leading actors. In turn, these foreign leading actors assist in setting up modern runaway factories where cheap docile women work with modern imported machines. Consequently, industry associations and policy-makers tend to agree that policy efforts should concentrate on training good supervisors, providing basic skill training to women workers, as well as a range of other aspects like increased hide and skill recovery, and foreign trade deregulation. In order to slowly capture more phases in the marketing and production chain Indian manufacturers send out promising employees to learn up-to-date design and production techniques, like computer aided designing (CAD) and computer aided manufacturing (CAM). However, as shown above, Agra is a special case with its artisanally skilled labour as well as a broad entrepreneurial base with worldwide footwear contacts, and warrants a complementary policy effort. Evidently, increasing Agra's attractiveness to premium-artisanal leading actors is first and foremost a task for local actors themselves. Still, in a modest way, policy-makers may be able to contribute to various processes.

Firstly, by supporting attempts to strengthen cluster associations of specific groups of entrepreneurs and workers as that may provide 'real services' to cluster members. Such 'real services' are often mentioned as a crucial factor in explaining the success stories from, e g, Italian clusters [Brusco 1992]. In Agra some sectoral associations do exist, notably an export manufacturers association and a domestic traders association, but these associations appear to be primarily lobbying devices of a few leading actors, instead of serving a collective interest. Also, a wide variety of small workers' unions exists, often built around a particular jatav 'big man' of high standing within his own neighbourhood and in nearby factories. Still, the influence of such patrons is predominantly limited to settling local work-related disputes as well as negotiating piece rates, advances, and festival bonuses with a few directly affected entrepreneurs. Although these local leaders

do sometimes temporarily join forces to fight a particular issue, as a rule they operate in isolation. Through the years, almost all attempts to arrange for a general footwear workers' strike in Agra were nipped in the bud by the very rapid increase in the number of 'scabs', a logical consequence of the hand-to-mouth existence of many jatav workers.

Secondly, policy-makers can contribute to achieving a more transparent and clear-cut legal infrastructure. Even though India boasts a well-developed legal framework, both domestic and foreign businessmen feel they cannot rely on rigorous enforcement of existing laws. To try to take an opportunist to court is a sure road to further losses on a deal, as one is most likely to get choked in the overburdened judicial bureaucracy. Moreover, many entrepreneurs complain about restrictions on importing particular components and specific flexible machines.

Thirdly, policy-makers may facilitate programmes for local actors to upgrade technology and artisanal skills. Agra harbours a number of local training facilities, mostly government-run and desperately short of funds, that teach outdated technologies to too few people. Larger firms as well as more modern small factories hardly recruit from these training institutes but send young and promising supervisors, managers or designers to courses in Delhi, Madras or abroad.

Fourthly, and most importantly, policy-makers should find ways to contribute to setting in motion a process of professional collaboration between makers and sellers. Clearly this is an extremely difficult task, full of hurdles, and will take generations rather than years. Initially, it may well be more realistic to focus on stimulating more outside professionals to set up shop in Agra.

VIII
Conclusion

At present a low road sweat-shop strategy predominates in Agra's footwear industry. Moreover, for most of the year Agra experiences a labour surplus leading to a downward pressure on wages and a less acutely felt need to upgrade technologies. In this artisanally rooted low-tech cluster non-Agra rooted entrepreneurs who follow a premium-artisanal strategy offer better employment conditions, not out of altruism but because it is in their well understood self-interest. They can only survive in this volatile but rewarding segment by offering higher road employment conditions. The *sine qua non* for a sustainable premium-artisanal strategy requires a continuous and in-depth professional collaboration between artisans with production skills and traders with marketing expertise. Therefore, professional collaboration between artisans and traders is a prerequisite towards a higher road growth path. However, in most of the clusters precisely this interaction is blocked, due to the existing caste-based antagonism. A substantial shift in favour of higher road employment conditions can come about only when local traders start perceiving the potential gains from starting a professional collaboration with artisans as more important as compared to its perceived social undesirability.

Only then do they at least stand a chance to face the challenges posed by the volatile but attractive premium-artisanal market segment, if they also sufficiently upgrade technologies and increase flexibility. If not, sweat-shops and runaway factories may bring lowroad employment to many and substantial profits to a few. At best, then, Agra would become just another low-cost manufacturing centre. Nevertheless, it would be a missed chance to kill two birds with one stone: to earn a position as a premium-artisanal cluster that realises a higher value added per pair and brings in substantial foreign exchange earnings, and which, moreover, offers higher road employment conditions to at least a significant part of supplementary-trained artisans for whom otherwise even more massive displacement looms. In all of this, policy-makers can play only a supportive and unpretentious role, as it is squarely up to Agra's footwear community itself to take up this challenge.

Notes

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1 It was Arni Svensson who first pointed out this need explicitly in a EADI seminar in Lund in 1992.

2 This is not to say that employment conditions are always good in the case of production for higher market segments, but just that they are better While participants in a premium-artisanal strategy primarily enjoy higher road employment conditions, participants in a sweat-shop strategy always face low road employment conditions. Of course, even the very unattractive sweat-shop employment conditions should be evaluated against local alternative employment opportunities.

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Flexible Specialisation

New Paradigm for Industrialisation for Developing Countries?

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The new paradigm for industrialisation has been developed based on experiences in the industrialised countries. This article examines whether flexible specialisation could be a new paradigm for industrial policies in developing countries with particular reference to the textile and the garment sectors.

THE concept of flexible specialisation was introduced by Piore and Sabel (1984) to explain why the industrial economies dominated by Fordist method of mass production (like US, France and Britain) are in trouble, while countries like Japan, West Germany and Italy which are adopting a more flexible production method were relatively flourishing. They challenge the mass production paradigm, which has dominated both theory and policy and point to the strength of the alternative paradigm - flexible specialisation.

The new paradigm developed from research on the advanced countries, but the debate about flexible specialisation is no longer limited to the rich industrial countries. It is also about, whether flexible specialisation offers a way forward for industrialisation in the developing countries. Here we evaluate the potential of flexible specialisation as a new paradigm for industrial policy in less developed countries with reference to the textile and garment sector. The two industries, the production of textiles themselves and the processing of these into clothing together account for over a quarter of all third world manufactured exports [Jackson 1992:4]. The industrial policy in this sector which is now passing through major technological and structural changes is thus of great relevance in the developing countries. Flexible specialisation to become a new paradigm has to satisfy certain conditions or has to achieve certain benchmarks. Here we examine whether flexible specialisation can achieve these in the textile and garment sector in the developing countries, where there is large labour surplus and whether it can be so desirable that it can be adopted by the developing countries in their industrial policies.

Piore and Sabel (1984) claim that we are now passing through an industrial divide. The path of technological development is at issue. There are two potentially contradictory strategies for growth in the advanced industrialised countries. The first is the dominant principle of mass production technology and the second is flexible specialisation, which is expected to offer more hope. Beginning in the mid-19th century mass production system grew to dominance. The full-fledged version of the model was most marked in the US, which the other countries tried to follow. The central features of mass production are described below:

> Product price is the key component of competitive strategy in mass production and the main attention is thus always to lower production cost. It needs market large enough to absorb the output of standardised products and stable enough to keep the resources continually employed It involves large-scale units, with large investments in highly specialised machinery to produce large volume of standardised products. The factories are laid to accommodate this process of specialisation and standardisation and production lines are introduced to manufacture on a dedicated basis. The workers are narrowly trained, they are not required to have total conception of work. It is enough to know the particular tasks they have to carry out. There is top down flow of authority and information with management hierarchical and rigid [Piore and Sabel 1984:5; Schmitz 1989:8-9]

But towards the end of 1960s the high rates of productivity growth started to fall. The changing relative competitive position of the different industrially advanced countries indicate that success lies in flexible type of production. The central features of flexible specialisation are described below:

> In flexible specialisation product characteristic is the key component of the competitive strategy. It involves greater product variety, with variation within products, greater quality of product and product innovation The production has to react to fast changes in the market. The output is in small batches of customised products (collectively output may be large). The production is not standardised. The same machine can make a number of products (multipurpose machines), depending on demand. Greater flexibility of output requires changes in the work practices, and requires multi tasking and multi skilling of workforces. They are broadly trained and are required to have conception of work. The main strength lies on continuous innovation with knowledgeable workers. New flexible technologies allow a greater range of output. The factory layout are altered from dedicated lines and functional layout to flexible production cells. Relationship with other firms becomes organic, which promote innovation and flexible just-in-time production, they are not required to maintain inventory. This is in contract to mass production which requires to maintain buffer just-in-case anything goes wrong [Piore and Sabel 1984:28-31; Kaplinsky 1991b:4-5].

These are characteristics of an ideal flexible specialisation model, which is based on the experiences in the developed countries (Third Italy, Mitsubishi in Japan, etc). However there are differences in the relative significance of the various elements in the different sectors and in different countries. In practice the examples differ from this ideal model. The differences are more prominent in case of developing countries. It is difficult to give a clear-cut definition for flexible specialisation. Piore and Sabel (1984) introduced the term and then it has been refined or modified by others. Schmitz (1989) provides a narrow and a wide definition:

> Its basic definition centres on technology, skills and output: (i) multipurpose machines, (ii) broad skills.., and (iii) varied products. The...extended definition contains two further elements: (iv) innovation; more precisely the firms compete with each other not by sweating and casualising labour but through product and process innovation. And (v) local political forces which channel the competitive pressure towards permanent innovation [Schmitz 1989: 18].

The emphasis on innovation and local politics makes the flexible specialisation mode attractive. What appears that there can be no fixed and final definition of the term but its meaning is to be realised by the elite planners in the context of a particular industrial sector in an economy.

There may be many forms of flexible specialisation or we can say there exist many alternative paths to flexible specialisation. Piore and Sabel (1984) described four forms of flexible specialisation: (1) regional conglomeration of small independent enterprises also known as industrial districts; (2) the federated groups of large loosely allied enterprises; (3) solar firms holding smaller firms holding smaller enterprises in steady orbits; and (4) internally decentralised workshop factories. Schmitz (1989) and

Kaplinsky (1991) grouped different forms into two major alternatives, small and a large firm variant of flexible specialisation. Here, we describe the two forms of flexible specialisation which are of relevance with respect to textile- and garment-making industry in the developing countries.

Industrial district: This consists of 'more or less equal small enterprises in an area or region bound in a complex web of competition and co-operation'. This involves co-operation between small firms and sharing of indirect costs, such as marketing, design, raw material procurement, maintenance of machinery. The most striking example is in Emigla-Romania region of Third Italy, where the small-scale units developed into a growing network of small firms adopting both traditional and computer-based technologies. They used their collective capacities to devise innovative products, that gave them increasingly independent access to markets [Piore and Sabel 1984: 17; Schmitz 1989: 6,7].

Solar system: Here the parent company devolves a range of manufacturing operations to it orbiting suppliers, sometimes but not always owned by the parent company, which markets the final product. An example of this is S R Gent, Marks and Spencers – largest contractor combines centralised design and cutting – and a satellite of sweating factories [example from: Panayiotopoulos 1992: 44].

Garment-Making and Clothing Companies

In clothing industry the work still requires a good amount of complex tasks, which are difficult to automate fully. About four-fifths of the labour time is in the sewing stage, using sewing machines, which has hardly changed since its invention. The Japanese have tried to establish automated sweat shops, but they are unlikely to be commercially viable in near future. The relatively simple, low technology production methods, low start-up costs and their need for large amounts of labour have given the poor countries a comparative advantage in this sector. The fact that raw material and finished product can be easily moved around, also makes it ideal for export industry. Excluding trade between EC countries, the developing countries account for 66 per cent of world clothing export and out of 15 major exporting countries eight are now from developing countries [Jackson 1992: 8-9; World Trade Organisation 1995: 124].

The western clothing companies play a major role in the development of export-oriented garment industry in the developing countries. In recent years, globalisation and flexibility have been the watchwords for their production method. This involves responding to consumer fashion demand and at the same time making use of cheap labour in the third world countries, by contracting out most labour-intensive work. There are three employers involved: (1) principal, (2) operator, and (3) contractors. The principal employer supplies the raw material on consignment basis to the operator located in a developing country, the operator gets the work done by a number of contractors and subcontractors, who engages workers including home workers. After the work the operator re-exports the finished goods to the principal employer, who sells it in the market. Here are some recent examples of such changes. In India DCM, a traditional textile mill company has entered into a joint venture with Benetton of Italy to start a knitwear factory in India. Mother Care of UK and Marzotto of Italy have also entered into agreements for joint ventures [Khanna 1994: 89].

Technology and market changes have been the key to shaping this global pattern. Computer-based communication system enables them to maintain close relationship with suppliers. The parent company gets involved at every stage, which includes procurement of fabric, improvement of production cost and product innovation. For example, Marks and Spencer is involved in the entire production chain from sericulture in China, spinning in Italy to dyeing, finishing and finally garment-making in the UK. The final product may even be sold in Hong Kong [Barnes 1994: 142].

The production for the domestic market in India is also in the small-scale sector and the production method is almost similar. The only differences are in the scale of operation, quality of products and the size of the organising firm. The merchants hold bulk of the production capacity who organise production across a number of firms [Khanna 1994: 87]. If we look at this from the perspective of a developing country, then what we have is clusters of small firms having some characteristics of flexible specialisation.

The textile district of Prato in central Italy gives a glowing example of introduction of industrial district model of flexible specialisation in textile sector in the 1960s. Piore and Sabel (1984) explained that the success of Prato since in terms of employment and export rests on reorganisation of production from large integrated mills, which united spinning, weaving and finishing under one roof, to technologically sophisticated shops – specialising in various phases of production. Technological innovation, constant subcontracting and search for new products became the startling features of the industry.

Though the developed countries still continue to dominate the world textile export, the share of developing countries is clearly showing an increasing trend. The textile industry in the developed countries went through many technological changes in the last two decades, which the developing countries are now trying to follow. The Indian textile industry is a classical example of a large multi-sectoral industry in transition within the developing economy. The textile and garment sector in India employ about 20 million people and contribute 20 per cent of total industrial output and 30 per cent of total export [*Economic Survey* 1995]. The shares of mills, powerlooms and handlooms in total fabric production during 1989-90 to 1993-94 are shown in the Table. This shows shift of production from mills to powerlooms. The production in handloom sector remained comparatively unchanged. This is not a recent trend, but has been taking place since independence [Leadbeater 1993: 226]. It has now become more prominent and rapid.

The changes that are taking place in the textile sector are summarised below:

- Bulk of the fabric production is now from powerlooms, which is showing an increasing trend.
- Production from mills is decreasing indicating shift of production from mills to powerlooms.
- Composite mills which combine spinning and weaving are disappearing.
- Spinning is emerging as an independent business distinct from weaving.
- Small-scale spinning units are the recent introductions (example: Tamil Nadu).
- Mills are contracting out their work to powerlooms.
- Merchants are organising production across a number of enterprises by supplying yarn and payment of conversion charges.
- This type of splitting of operation has been further facilitated by establishment of independent textile processing centres [Khanna 1994: 70-74].

This shift in production structure is represented in the Diagram. It can be argued

Table : Production of Fabrics

(million sq mt)

	1989-90	1990-91	1991-92	1993-94
Mills	2677	2589	2376	1990
Powerlooms	14007	16044	16089	19631
Handlooms	3924	4295	4123	5851
Total	20608	22928	22588	27427

Source: Government of India: *Economic Survey*, 1994-95.

that such changes are in many respect similar to what happened in Prato, discussed earlier. However, there are some differences, which raises the question about potential of the new paradigm for the developing countries.

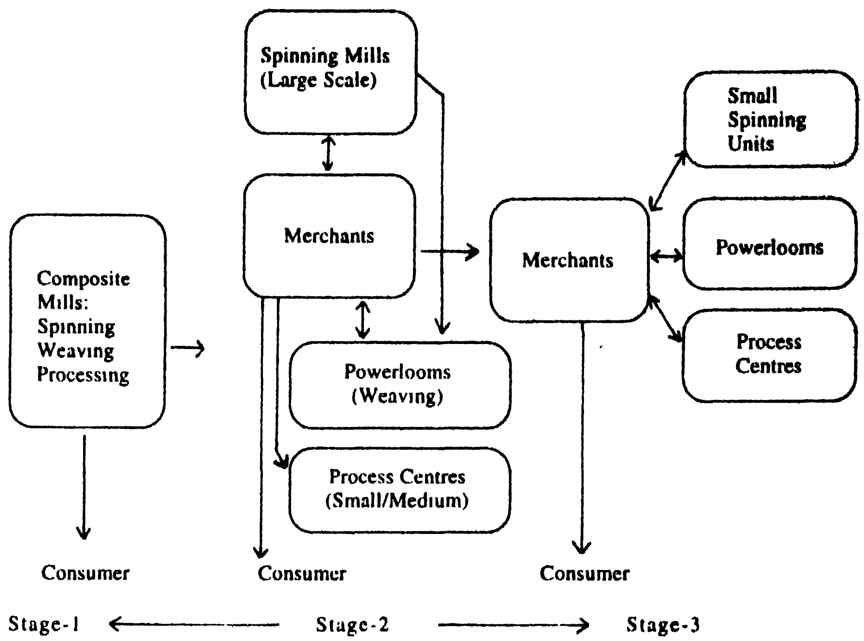
New Paradigm

For flexible specialisation to become a new paradigm for developing countries it needs to achieve the objectives of growth with supply of high quality goods for the domestic and world market. The growth has to be continual. It is not enough for this to be a transient phenomenon. The main issue is whether it can provide continual improvement in efficiency, through continual innovation. According to Piore and Sabel (1984: 258) it is technologically dynamic enough to achieve this. They argue that flexible specialisation encourages competition that promotes innovation and prohibits the kind of competition that detracts from permanent innovation. We will examine here whether this can happen in developing countries.

Piore and Sabel (1984) have shown that in advanced countries flexible specialisation responded more successfully to crisis than mass production. It is this characteristic that makes the model attractive for the developing countries, where the small-scale units are more prevalent and are in an environment of chronic crisis. Agglomeration of small firms would offer few benefits even if they produce the same thing. Benefits arise when networks of suppliers develop, that provides materials, tools, machinery, spare parts and so on (examples: Americana, an industrial district in Sao Paulo and knitting industry in Petropolis). It is this sectoral agglomeration that partly enables them to overcome crisis and their 'resilience during crisis depend critically on collective efficiency and flexibility' [Schmitz 1989: 27-30].

Due to labour surplus in developing countries, competition frequently results from the sweating of labour, than innovation. There are examples from hammock making industry in Brazil, knitting or clothing industry in Petropolis, Americana in the state of Sao Paulo, where sectoral agglomeration was accompanied with low remuneration for labour [Schmitz 1989: 30-33]. The competition focused on minimising labour cost, through non-registration of workers and non-payment of national insurance or social security contribution. Schmitz (1989) explained that while such practice is possible for small firms, it is difficult for large firms. The above examples show how the small firms through unfair practices keep labour cost low. But this is even legally possible. In India, the workers in small firms (less than 10/20 workers) are not covered under many

Diagram : Structural Change in Textile Industry



labour legislations (Factories Act, Gratuity Act, Provident Fund Act, etc).

The garment sector is more prone to worse exploitation of labour. There are even examples from developed countries. The study of ethnic minority enterprises engaged in garment sector in London shows that most of the firms, who operate as cut, make, trim (CMT) outdoor units of large manufacturers or contractors are characterised by "massive under-remuneration of workers, particularly the home workers, who are becoming more central to organisation of production" [Panayiotopoulos 1990: 297].

It is not only that workers in small firms are paid low wages, but they also use machines which are of inferior technology compared to those used in the large firms. For example, in India most of the powerlooms, which developed in clusters "used same type of technology with somewhat cheaper non-automatic looms than used in the mills...wage level significantly less than half the mill wage" [Suri 1988: 238]. The quality also suffers, since the parent firms pay at piece rates, the main concern becomes quantity rather than quality, which suffer further because of low wages [Schmitz 1989: 33]. There are, however, exceptions (Lyberaki's example), where small-scale industries in developing countries have successfully embarked on high technology, high quality route by combining innovation with sweat labour [Schmitz 1989: 33]. But in most cases the empirical evidences indicate that a high labour surplus leads to sweating of labour in place of innovation.

Innovation for continual improvement is also the main challenge for firms in transition, shifting from mass production to flexible specialisation. Kaplinsky (1991) pointed out that so far only few non-Japanese firms have been able to master the shop floor organisation which facilitates incremental technical change. It is thus unlikely that firms in developing countries operating at a lower level of technology and communication network will be able to achieve this. His case study of Sunnyface Garments in Cyprus indicates that there was major improvements in competitiveness at the point of transition. But the firm was not able to tackle the process of continual technological change based on work improvement.

Piore and Sabel (1984) argued that flexible specialisation involves participation of workers in work conception and opens up long-term prospect for improvement in working condition. We have discussed that in a labour surplus economy this is unlikely to happen. Employment in small firms makes them move vulnerable to exploitation.

Flexible specialisation encourages segmentation of the workforce between a 'core' and a 'periphery'. The workers in the parent company are in the core with high wages (example: designers in garment-making industry), while workers in the peripheries are low-paid (home workers in garment-making industry) and more prone to exploitation. There are many examples. The development in Cleopatra Fashions indicates creation of such segmented workforce [Panayiotopoulos 1992: 68]. Batik industry in Indonesia is another example, where home-based women workers in the periphery are poorly paid [Galhardi 1995: 124]. The issue

of divisions between core and periphery is more prominent, if restructuring of firms leads to shift of work from mill to periphery, with fewer workers working in the mill and thus becoming a source of dispute. In terms of employment generation it is difficult to make any generalisation. A low road strategy (competition through low wage) will create demand for unskilled and casual labour. A high road strategy (constructive competition with high wage) will require skilled and semi-skilled labour.

We find that in developing countries, the lack of institutional framework necessary to promote co-operation and stimulate innovation is the major obstacle in the emergence of flexible specialisation. The industrial district experiences speak about three types of institutions – effective local governments, association of small firms and trade unions. According to Piore and Sabel (1984), the local governments in these industrial districts provided industrial infrastructure and collective services to encourage co-operation between independent producers, which enabled "peaceful merger of co-operation and competition". This raises question of theory. The collective support provided to flexible specialisation firms may conflict with the functions of the entrepreneurs as competitors. Further, in a developing country context it can be said that "civil society is weak and the necessary political institutions like local government based on widely shared ideas of common goods are not well developed" [Holmstrom 1993: 85]. There are also problems in development of effective associations of firms in developing countries. The main stumbling block lies in competitive individualism of small producers. The solidarity of small firms is often based on kinship, which excludes outsiders [Holmstrom 1993: 85].

Study of four European regions by Schmitz and Musyck (1993) indicates that strong labour unions have contributed to competitive behaviour, which favour innovation, and blocked the low road to competitiveness. But in developing countries, labour is vulnerable to exploitation, specially in small firms, and unions are weak in this sector. The study also shows emergence of coalition between local government agencies, association of small firms and workers' organisations. Such coalitions were not free from internal conflict but they played a positive role [Schmitz and Musyck 1993: 37]. But lack of trust between businessmen, politicians and civil servants is quite common in a developing country, which often make such a coalition difficult and may even block innovation.

The basic objective of an industrial policy of a country is to create a dynamic and diversified industrial sector that can contribute to overall expansion of the economy and solve many pressing economic and social problems. It covers a wide range of issues including trade, allocation of finances between enterprises and the roles of the large and small firms. The policy cannot be viewed in isolation of several broader issues like macro-economic adjustment programmes, privatisation, the changes in the global trade and the restrictions imposed by Multi-Fibre Agreement. It has to also take into consideration that the large firms like Benetton, effectively control the functioning of the small firms. The characteristics of small firms and even their existence mainly depend on the policies of the large firms, which very few countries can influence.

Supporters of flexible specialisation (e g, the ILO and UNIDO) will argue that this new paradigm is so desirable that it should be one of the main guiding principles for the policy-makers. The policy must prescribe measures to promote industrial districts and support restructuring of industries, for shifting from mass production to flexible specialisation. Here, we examine whether government through industrial policy at micro (local), meso (regional) and macro (national) level can promote flexible specialisation in this sector.

If we consider restructuring of a large firm (like composite mills transferring weaving operation to powerlooms outside the industry), then such a move will cause loss of jobs in the mill and are likely to be opposed by the trade unions. It is unlikely that provisions for such restructuring will be adopted in the industrial policy. In India restructuring of textile mills is a major area of conflict between the management and trade unions. The Greater London Council's London Industrial Strategy showed attempts by a local authority to promote flexible specialisation. Though the aim was to restructure for labour, the experiences show little regard for such a social package and thus raises the question whether such an initiative can promote flexible specialisation in the style of the ideal models [Panayiotopoulos 1992: 56]. However, governments with an affinity for labour may find this policy of 'restructuring for labour' quite attractive as their industrial strategy which takes into consideration the interests of workers in the promotion of small firms.

Schmitz and Musyck (1993) examined the role of institutions in the industrial districts of four European regions. They found that "none of the industrial districts are result of planned action, of a local or regional industrial strategy. They all developed spontaneously. Public and private sector institutions did play a role in their growth process but they were not created by these institutions"

[Schmitz and Musyck 1993: 31, 35]. This leads to the argument that government cannot create an industrial organisation which from the beginning competes on the basis of collective efficiency. However, once there is a minimum concentration of industrial activity they can play important role in helping the industry to innovate and expand. Provisions for two major resources (1) space and (2) producer services, through establishment of export processing zones, techno parks, etc, in developing countries have encouraged development of small firms in clusters (e g, Kumasi in Ghana). Here, collective efficiency will not arise immediately but may emerge at a later stage [Schmitz and Musyck 1993: 32].

The Industrial District experience in Europe points towards a new model of local and regional industrial policy. It involves delegation of functions to local government and encouragement of local institutions. This has contributed to a general shift in the recent European industrial policy debate [Schmitz 1989: 36] But lack of institutional development is a major problem in developing countries. The small Urban Producers Programme by ILO and UNDP, implemented in Mali, Rwanda and Togo, is an example of attempts to promote and encourage such institutions [Galhardi 1995. 126].

In Piore and Sabel (1984) model of flexible specialisation there is no discussion about institutional conditions at macro level Little can be learnt from the industrial district experiences about the macro policy environment [Schmitz 1989: 34] The evidence only indicates that the success was not the result of any centrally administered incentives for a particular region. But macro-economic policies are important, specially in the context of developing countries.

Conclusions

We started with a brief discussion about the characteristics of mass production and flexible specialisation. It was followed by a short description of the flexible specialisation models – those relevant in the textile and garment sector. The existence of different models of flexible specialisation leads to dithering objectives. The options include 'restructuring for capital' (e g, Japanese system) or restructuring with also labour in mind (e g, Prato, approach of Greater London Council). A government with affinity for labour may find restructuring for labour an attractive strategy, while another country may choose the other alternative.

The recent changes in the textile and garment sector indicate the emergence of some of the characteristics of flexible specialisation. But they fail to satisfy some of the most important ones, specially those relating to collective efficiency, continual innovation for continuous growth, institutional conditions, merger of co-ordination and competition and prosperity of workers. Lack of institutional development is one of the major bottlenecks for emergence of flexible specialisation in developing countries.

Hyper competition of small firms in garment industry still leads to sweating of labour in place of innovation in the developing countries. The trend indicates that while in "low labour surplus region of south Germany and Third Italy the dynamic is more of high wage/high technology/high quality, in vast labour surplus LDCs the dynamic tends towards low wage/low technology/low quality" [Schmitz 1989: 33]. This raises questions about replicability of the model of the advanced countries to the clusters of small firms in the third world countries.

In developing countries, industrialisation in any form that can generate employment and provide a reasonable wage for workers will be desirable and attractive. The study shows, while there is little scope for development of flexible specialisation in the style of advanced countries, there is no doubt that it is better and more realistic than a separate small-scale sector. But if the choice is between large firms engaged in mass production and cluster of small firms, then large firms will be preferred by the workers if not the policy-makers

There are doubts whether government initiative can create industrial organisation which will compete on the basis of collective efficiency, but it is clear enough that there is need for favourable policy at micro, meso and macro levels, for flexible specialisation to emerge in this sector. This issue is required to be further developed through empirical studies in developing countries. The market and technology may push the changes in certain directions, but the policy issues will depend on many other issues, the most important one is the political considerations and the influence of pressure groups.

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VI. ADMINISTRATIVE OFFICER (Scale of Pay Rs. 2200-4000) : **One Post :**
For its North Eastern Regional Centre at Guwahati.
The post is to be filled up on Transfer/on deputation basis.
The qualifications prescribed for the above post are as follows .
Essential :
i) A Degree from a recognised University with minimum five years' experience in supervisory/administrative position in Govt./Quasi-Govt./Academic or Autonomous Organisation with atleast three years in the Scale of Rs. 2000-3500. Should be conversant with Govt. rules and regulations/office procedures and administrative matters/maintenance of equipment, estate/hostel maintenance.
Age : Below 45 years.
The Administrative Officer is required to stay on the campus of the Regional Centre, Guwahati.

General Conditions :

1. **Employed persons should submit their applications through proper channel. Advance copies/direct applications/incomplete applications will not be considered.**
2. Mere fulfillment of the qualifications prescribed does not entitle the candidate to be called for interview. Institute may shortlist the candidates as may be necessary for interview/selection.
3. No correspondence will be entertained as regards shortlisting, calling for interview, selection or appointment
4. The Institute reserves the right to relax any of the requirements i.e. age, educational qualifications, experience, etc. in exceptional cases.
5 Canvassing in any form will be treated as disqualification.
6. Candidates selected are likely to be posted at any place in India.
7. All posts are **on Contract/Contract on deputation** for a maximum period of five years except temporary posts which are for 2/3 years only.
8. Suitable residential accommodation will be provided on the campus subject to availability.
9. All India Service Officers and other Senior Govt. Officers of both Central and State with relevant experience in the field of Rural Development are also eligible for induction into the faculties on contract which includes contract on deputation basis in which case relaxation of academic qualifications like Ph.D will also be considered on merits.
10. The prescribed age of superannuation is 60 years for the employees of NIRD. Contract/deputation appointment will be upto the age of 60 years
11. Age relaxation for ST/SC/OBC is allowed as per G.O.I. rules for the posts where age is mentioned i.e. Asst. Directors, Asst. Librarian and Administrative Officer.
12. The Gross salary for each post at the Minimum and Maximum are as follows .

	Minimum	Maximum
Director	Rs. 11,955	Rs. 15,525
Dy. Director	Rs 9,843	Rs. 13,605
Asst. Director Admn. Officer	Rs. 6,788	Rs. 11,565
Asst. Librarian	Rs. 5,200	Rs. 8,891

13. DA, HRA, CCA and other allowances as applicable to Central Govt. employees.
14. The Faculty Posts are on U.G.C. Scales of Pay.
15. **In meritorious cases, a higher start could also be considered.**

Prescribed application forms and information sheet with full details of qualifications, experience, job description etc. may be obtained from the Asst.. Registrar (Establishment), NIRD, Rajendranagar, Hyderabad 500 030 by sending IPO for Rs. 100/- (Rupees one hundred only) in favour of Registrar, NIRD, on or before **25.1.1997.** In case of SC/ST candidates, application is supplied free of charge on production of Caste Certificate.

Prescribed applications duly filled-in and supported by all relevant documents to be sent by Regd. Post should reach the Asst.. Registrar (Estt.); on or before **7.2.1997.**

REGISTRAR

Political Economy of Voluntary Retirement

Study of 'Rationalised' Workers in Durgapur

Ratan Khasnabis
Sudipti Banerjea

The article explores the mechanisms behind the workers' acceptance of voluntary retirement scheme in the Durgapur industrial area of West Bengal. Though there is willingness on the part of the workers to accept the compensation in some cases, there are sizeable number of instances of coercion from the management forcing the workers to accept the deal. More importantly, the amount of VRS gets mostly utilised for non-productive purposes, thus reducing the chances of the retired workers to begin any self-employment venture.

I
Background

SECTIONS 25(O) and 25(N) of the Industrial Disputes Act (ID act) of India make it necessary for an industrial organisation to seek government permission for closing down the establishment or retrenching labour.[1] As a part of the New Industrial Policy (NIP), the government of India (GOI) announced an 'exit policy' that would substantially modify the ID act so that along with free entry, the industrial organisations would enjoy the freedom to close down the unit or retrench labour as and when the management finds it necessary. A new industrial relations bill, incorporating easier rules under chapter V-B of the ID act for closing down an unit or retrenching labour was supposed to be introduced in the Lok Sabha in 1992. The said bill, however, could not be introduced due to political pressure from the organised labour. Under these circumstances, the government has opted for the second best. In both the public and private sector,[2] the government is now encouraging an early separation scheme known as the voluntary retirement scheme (VRS) that would help the industrial organisations shed off their surplus labour without having to face the legal complications associated with the relevant provisions of the ID act.

Under the VRS, the job contract can be dissolved for a price - a lump sum amount of money - which is more than the normal terminal benefit. Thus, the GOI has the VRS in operation, offering 45 days salary for every completed year of service or the total salary for the rest of the employee's tenure, whichever is less, as against 15 days salary to the employee in case of loss of job, as per the ID act. Several private sector organisations have also introduced VRS for shedding off their extra manpower. Some of them are quite attractive. An electrical company, for example, gives every employee opting for a golden handshake his gratuity and provident fund plus 80 per cent of the salary payable till the date of his retirement [Datt 1993:75] However, more often than not the compensation in the private sector units is very poor and generally worse than that in the public sector units (PSUs). Thus, a field survey covering 10 non-PSUs and 11 PSUs in Durgapur industrial area reveals that on an average a rationalised worker in a non-PSU received Rs 0.40 lakh as VR compensation, the comparable figure in the PSU had been Rs 1.44 lakh (Table 3).

There is no rigorous study on how much the company gains out of the early separation scheme Swaminathan S Aiyer, however, made an interesting observation in this context: "If a company pays Rs 500 crore in VRS, it saves Rs 200 crore annually in its wage bill, meaning [that] it is getting a whopping return of 40 per cent of its outlay. No other outlay can yield such a high return".[3]

The PSUs are the biggest target of the early separation scheme. Some estimates reveal that there is 25-30 per cent overstaffing in the PSUs [Datt 1993:75]. Keeping this in view, as a measure to ensure cost efficiency, the GOI has finalised a scheme that envisages rationalisation of about 4.5 lakh employees (about one-fifth of 23 lakh employees in 246 central PSUs). In 58 perennially sick PSUs, the target is to shed off 2.5 lakh workers.[4] The biggest PSU to introduce this scheme is the National Textile Corporation (NTC). With 1.4 lakh workers, the NTC wants to make 75,000 persons retire in the near future. The next is the Steel Authority of India (SAIL) that has a target of retrenching 16,900 workers.

The GOI has formed a corpus fund for financing the early separation scheme in the PSUs. This fund is known as the national renewal fund (NRF). The guidelines of the NRF, as approved by the GOI on October 28, 1992, define the objectives and scope of NRF as (1) to provide funds for compensation of employees affected by restructuring and closure of industrial units, both in the private[5] and public sectors; (2) to provide assistance to cover costs of retraining and redeployment of employees, necessitated due to modernisation, technological upgradation and industrial restructuring; (3) to provide funds for employment-generation schemes both in the organised and the unorganised sectors.

The NRF is administered by the empowered authority in the department of industrial development, ministry of industries, GOI. The empowered authority consists of 11 members with the secretary (industrial development) as its chairman. The empowered authority decided to utilise a portion of the fund earmarked for employment generation to set up employment assistance centres (EACs) that would organise retraining and redeployment of the rationalised workers. Initially, the pilot schemes for EACs had been operationalised at five centres by different autonomous and non-government organisations. Subsequently, it was decided by the empowered authority to set up 31 EACs in addition to the existing five centres. These 36 centres would be operated by 11 nodal agencies.

The Indian Council of Small Industries (ICSI) is one such nodal agency which has been entrusted to set up six centres in four different states. The primary data which form the basis of the present study have been collected by the ICSI under the overall supervision of the present contributors.

Purview of Present Study

In order to identify the target group, it was decided that each EAC would take up a quick survey followed by a detailed survey on the rationalised workers. Accordingly, four EACs,[6] operating with ICSI as the Nodal Agency, have taken up the survey on rationalised workers in their respective catchment areas. The data pertaining to the rationalised workers are being collected by using a uniformly structured questionnaire administered by a set of trained investigators in each EAC. The survey is expected to gather a set of information on the socio-economic profile of the rationalised workers, the stated reasons of opting for voluntary retirement (VR), the ways VR-funds have been utilised so far and the post-VR

engagement of the rationalised workers. The present paper, however, is based on the data pertaining to one centre, viz, Durgapur (West Bengal) where the EAC has been commissioned in February 1996 and the field survey could cover 629 workers which is 83.86 per cent of the target (750 workers) for 1996-97. In other centres, the survey is yet to cover a reasonably good percentage of the target group of respondents. Hence, those centres could not be covered in the present analysis.

The Gandhi Labour Institute, Ahmedabad, took up a study covering 5,733 displaced textile workers in Ahmedabad [Patel 1988]. A recent study based on a smaller sample (250 displaced workers), taken up by Supriyo Roychowdury (1996), also addressed the problems of the rationalised workers. However, this study was also confined to the displaced workers of closed textile mills of Ahmedabad. The present paper addresses the same set of issues. But this involves the rationalised workers of metallurgical, engineering and chemical industries, in both PSUs and non-PSUs, of Durgapur which is one of the newly developed industrial centres of eastern India.

The ICSI-sponsored study, of which only a part is contained in the present paper, has a wider coverage in the sense that it considers the displaced workers of four different centres spread over three different states. Again, the study is not confined to the closed units only. The displaced workers belonging to closed, sick and running industrial organisations as well have been brought under the purview of the present study The coverage of this study is wider also in the sense that it spreads from coal mine workers of Dhanbad in Bihar to textile workers of Warrangal in Andhra Pradesh. It is, therefore, expected that the results of this survey, as they come out, would help one get a deeper insight into the political economy of the early separation schemes in India.

Coming back to the context of the present paper, it may be stated that in the remaining part of the present section we consider the methodological issues relating to the field survey. In Section II, we analyse the socio-economic profile of the rationalised workers in the Durgapur industrial region. The political economy of VR, including the post-VR profile of the rationalised workers, has been discussed in two subsequent sections of the paper. Needless to say, no generalisation can be made on the basis of this study because it is a region-specific study based on a small sample of rationalised workers drawn mainly from the PSUs in Durgapur.

It is difficult, particularly in case of the PSUs, to contact a rationalised worker after he leaves the job. Generally, in a PSU, the workers reside in its settlement areas. But a displaced worker, living in the PSU's settlement areas, is supposed to hand over the residential quarter within three months after his claims have been settled. Under such circumstances, it is difficult to contact a displaced worker after his claims have been settled. In some cases, the workers from distant places go back to their native villages and towns immediately after the claims have been settled. The cost of surveying such persons being prohibitive, it is not feasible to cover those people in the survey even if their present addresses are available. Only such retired persons who have settled in the nearby areas and the workers who are still occupying the factory quarters can be covered in the survey. Here again, it is difficult to prepare an exhaustive list of such persons. As a result, a statistically regular sample cannot be selected out of the population of VR-workers in a centre.

The sample taken in each centre of VR-workers who could be spotted while visiting the nearby locality of such a centre. The survey personnel have been instructed to cover each of such persons without exception. These workers constitute the core of the sample. The second source of information has been the EAC itself. There had been awareness campaign organised by the EACs which induced a section of the VR-workers, not contacted by the investigators, to visit the EACs. This widened the coverage of the survey. Nevertheless, the sample cannot be claimed to be representative because the selection is not done on the basic of an ascertainable law of chance. It is a non-random sample which often goes in the name of 'convenience sampling'.[7]

Under the Durgapur EAC, there had been 629 respondents who could be covered in this way. The respondents had been interviewed with a set of structured questions, both open-ended and closed. It was a standardised questionnaire canvassed by a set of trained investigators. The data related to these repondents are being analysed in this paper.

II
Socio-Economic Profile of Rationalised Workers

In Durgapur, the survey in the present phase covered 629 rationalised workers out of which 602 reported to have opted for VR and the rest reported to have lost job due to closure and retrenchment. The overwhelming majority of the VR-respondents (572 out of 602) belonged to the PSUs (Table 1). The domination of the PSUs in the survey is largely explained by the fact that the employment in the organised sector in the Durgapur industrial region is largely accounted for by the state and central PSUs and that the PSUs introduced the VRS, following the NIP, in a big way.

Target Group

The age composition of the VR-workers described in Table 2 has a definite tilt in favour of the advanced age-groups.[8] In the present sample, the concentration of VR-recipients in the advanced age-groups is explained[9] by two sets of logic. For DSAIL,[10] the productivity of which has improved remarkably following the modernisation of both DSP and ASP, a section of the workers failed to meet the new productivity norms. The management wanted to shed off this workforce by taking recourse to the VRS. By and large, the target group happened to belong to the advanced age-groups. It does not, however, seem that the axe of retrenchment due to modernisation would necessarily fall on the workers belonging to the advanced age-groups. In case of the non-PSUs[11] in Durgapur, where the (lack of)

Table 1: Distribution of Sampled Rationalised Workers in Durgapur

Organisation	Voluntary Retirement	Other Kinds of Separation	Total
MAMC	470	0	470
DSAIL	60	0	60
HFC	20	0	20
Other PSUs	22	5	27
Non-PSUs	30	22	52
Total	602	27	629

Notes.

A. 1 Out of 629 workers, 27 had been under the non-VR category.
2 DSAIL consists of Durgapur Steel Plant and Alloy Steel Plant.
3 HFC: Hindustan Fertiliser Corporation.
4 MAMC: Machine and Allied Manufacturing Company
5 Other PSUs consist of Bharat Ophthalmic Glass, Durgapur Project, Hindusthan Steel Constrution, Rehabilitation Industries Corporation, Indian Iron and Steel, Hindusthan Refractories and Ceramics, and South Bengal State Transport Corporation.
6 There are 10 industrial organisations under the Non-PSU category.

B: Out of 27 respondents reporting other kind of separation, 26 respondents had been affected by closure while 1 respondent has been affected by retrenchment

Source: Field Survey, 1996.

Table 2: Age of Workers at Time of Voluntary Retirement (VR)

Age Group	MAMC	DSAIL	HFC	Other PSUs	Non-PSUs	Total
31-35	1	0	0	1	0	2
36-40	3	0	0	1	0	4
41-45	11	0	1	2	5	19
46-50	87	11	2	4	14	118
51-55	284	40	11	14	9	358
56-60	84	9	6	0	2	101
Total	470	60	20	22	30	602

Source: Field Survey, 1996.

productivity had been stated by the management as the consideration behind selecting the target group, it has been observed that more than 50 per cent of the workers belonged to the less-than-50 age-group. However, the weightage of the DSAIL being much higher than that of the non-PSUs in the sample, the age composition of the workers, who failed to meet the new productivity norms and opted for premature retirement, had a tilt in favour of the advanced age-groups.

In MAMC, which is a sick PSU with no definite plan for revival, it seemed that the management utilised the VR-fund that it received from the central government to make such workers retire for whom the management's obligation in terms of monthly wage compensation would be high. The (lack of) productivity was hardly a criterion. The management wanted to utilise the VR-fund in such a way that the organisation would get an immediate relief in terms of a substantive cut in monthly wage bill (a liability that the management of a sick unit would want to minimise). Even though the VR-compensation of the workers in the 50-plus age-group had been high,[12] most of the recipients of VR had been chosen from this group. It was a short-sighted decision. But it does not seem that this was unique to MAMC. In HFC, another perennially sick PSU, the rationale seemed to be the same. Consequently, in HFC also, there had been a tilt in favour of workers belonging to the higher age-groups (Table 4). In the absence of a definite scheme for technological modernisation, the management in HFC was in favour of seeking a respite by utilising the VR-fund for reducing the monthly wage bill.

In case of other PSUs, reporting 22 cases of VR, the managements' point of view could not be ascertained. From what the investigators gathered from other knowledgeable sources, it seemed that the lack of productivity had been one of the factors behind selecting the target group. One may note that 8 out of 22 workers had been selected from the lower age-groups in case of other PSUs. In sum, 59.46 per cent of the sample of VR-workers in Durgapur belonged to the 51-55 age-group. In MAMC, from which the majority of the respondents had been taken in this survey, the percentage of workers in the 51-55 age-group had been as high as 60.43 per cent. There is, however, a variation among the units in the age-specific distribution of the VR-workers. It seems that this reflects the variation in the circumstances under which the VRS had been introduced in these organisations.

On an average, a retired worker of Durgapur, opting for early separation, received a sum of Rs 1.39 lakh as compensation for job loss. This was lower than the compensation rate projected for the surplus staff in 50 industrial and eight non-industrial public sector units [Ratnam 1992]. Table 3, however, indicates that the average may not portray the real plight of the typical VR-worker because there is a wide variation in the compensation sum both within and among the organisations. Thus, the VR-compensation in Durgapur varied between Rs 0.04 lakh to Rs 8 lakh. On an average, the VR-compensation in the non-PSUs have been a paltry sum of Rs 0.40 lakh. In MAMC, on the other hand, the average VR-compensation had been Rs 1.53 lakh. In DSAIL, the average VR-compensation had been Rs 1.14 lakh, while the comparable figure in the other PSUs had been only Rs 0.78 lakh.

Considering the VR-compensation along with other retirement benefits (provident fund, gratuity, etc), it appears that on an average the recipients in Durgapur received a sum of Rs 3.25 lakh. Here again, there exists a wide variation both among and within the organisations. Thus, in DSAIL the average compensation (considering both VR and other retirement benefits) had been Rs 2.84 lakh; in the non-PSUs, on the other hand, the sum had been about four times lower than this. A typical MAMC worker received a sum of Rs 3.53 lakh while opting for voluntary retirement. In the other PSUs and HFC the sum had been much lower.

The extent of variation is better captured in the coefficient of variation (CV) calculated with respect to each organisation under consideration (Table 3). It is observed that the CV had been 69.23 per cent for the VR-compensation fund for all the organisations taken together. The figures in parentheses of column 2 of Table 3 indicate that there had been a wide difference in intra-group variation in the amount of VR-compensation that the workers received. Thus, in the non-PSUs, the CV had been 172.24 per cent, while it was as low as 62.49 per cent in MAMC. The data also indicate that the intra-group variation was higher than the average CV for Durgapur in the other PSUs, DSAIL and HFC; but it was not as high as that in the non-PSUs. Considering the other benefits that the workers receivced while retiring from their respective organisations, one may observe that the intra-group variation in the non-PSUs measured in terms of CV had been about 3.5 times higher than the average variation in this group. Once again, it was the lowest in MAMC. Table 3 also indicates that the CV had been very high for the non-PSUs, if we consider the total compensation that a retired worker received. The CVs with respect to the total compensation had been remarkably close to one another in the PSUs covered in this survey.

The wide variation in VR-compensation and other retirement benefits among the workers in the non-PSUs in Durgapur is largely explained by the lack of a uniform compensation policy both within and among the non-PSUs.[13] On the contrary, both the intra- and inter-organisational differences in the CVs among the PSUs are low mainly because the PSU employees are usually exposed to a uniform VR-compensation policy; the normal retirement benefits are also usually uniform for all the PSU employees. The differences in CVs of VR-compensation among the rationalised workers in various PSUs seem to exist largely due to the variations of the tenure of the VR-workers in their respective organisatios.[14]

Gender, Caste, Education and Skill

The organised sector in general and the PSUs in particular are dominated by the male workers. In the sample of rationalised workers in Durgapur,[15] the percentage of male workers is as high as 94.12 per cent (Table 5). As Table 5 indicates, the inter-organisation variation in the gender-specific distribution of the VR-workers is also low. In India, there exists gender discrimination in the organised sector employment.[16] The data indicate that

Table 3. Average Retirement Benefits of VR Workers

(Rs lakh)

Organisation	No of Workers	VR Compensation	Other Retirement Benefits	Total Benefit
MAMC	470	1.53 (62.50)	1.95 (57.64)	3.53 (51.07)
DSAIL	60	1.14 (80.80)	1.39 (71.56)	2.84 (49.20)
HFC	20	0.91 (87.15)	1.14 (109.82)	2.70 (49.88)
Other PSUs	22	0.78 (94.19)	1.28 (90.90)	2.32 (60.76)
Non-PSUs	30	0.40 (172.24)	0.35 (271.78)	0.77 (207.75)
All Organisation	602	1.39 (69.23)	1.76 (79.73)	3.25 (105.22)
Range (Rs Lakh)		0.04-8.00	0.02-6.36	0.02-13.00

Note: Figures in the parentheses measure coefficient of variation.

Table 4: Age-Specific VR Compensation for MAMC and HFC

Age Group	MAMC		HFC	
	No of Workers	VR-Compensation	No of Workers	VR-Compensation
31-35	1	1.00	0	0.00
36-40	3	0.99	0	0.00
41-45	11	1.27	1	1.10
46-50	87	1.48	2	0.68
51-55	284	1.74	11	1.18
56-60	84	0.95	6	0.47
Total	470	1.53	20	0.91

Source: Field Survey, 1996.

operation of the VRS has not enhanced such discrimination in a significant way.

The rationalised workers in Durgapur are mostly Hindu upper caste people (Table 8). This is due to the fact that the employment in the organised sector in Durgapur is largely biased in favour of the Hindu upper caste. The skilled workers form 76.59 per cent of the rationalised workers, and the percentage of unskilled workers is as low as 8.44 (Table 6). The PSUs in Durgapur had generally been based on capital-intensive technology that required a set of trained workers to operate the sophisticated machines. Unlike their counterparts in jute and cotton textiles industries in and around Calcutta, the Durgapur workers had been mostly literate with technical qualification(s) and/or technical skill acquired on the shop floor.[17] The data indicate that a high percentage (30.25) of the workers joined the organisations with a technical degree or diploma (column 3 of Table 8). Again, a reasonably high percentage of workers who did not have pre-acquired skill, did earn technical knowledge during their tenure in the respective organisations. This is true even for the non-PSUs in Durgapur where the percentage of unskilled workers has been as low as 17.31 (Table 7). Out of a total of 628 workers for whom the skilled-specific information had been available, the number of skilled workers had been 481, 190 of such workers joined their respective organisations with technical qualifications. The rest, which constitutes 46.18 per cent of the total workers, acquired skill on shop-floor.

Among the workers, the section with technical education gets a better promotional avenue within the organisation. However, the prerequisite for technical education is general education. The entitlement to general education stems from a reasonably good economic and cultural background which the people in the backward caste hardly possess. It is no wonder, therefore, that in the sample of rationalised workers, 14 out of 63 persons belonging to the Hindu backward caste are illiterate, whereas, out of 347 persons belonging to the Hindu forward caste, only 2 are illiterate.

The percentage of workers with an education level of secondary and above is 97.98 for the Hindu forward caste and the corresponding percentage for the Hindu backward caste is about 54 (Table 9). The figures in Table 9 definitely indicate that the caste-specific difference exists in terms of entitlement to education. The workers belonging to the Hindu backward, non-Hindu forward and non-Hindu backward castes have less entitlement to education than the workers belonging to Hindu forward and the Hindu OBCs. Between the 'Hindu forward' group and the 'Hindu Other Backward' group, however, the former group has an edge over the latter group, although the gap does not seem to be wide.

As the members of the Hindu upper caste have better opportunity to get general education, and the prerequisite for technical education is general education, the technical skill is biased in favour of the workers belonging to Hindu upper caste. Table 6 presents this reality. The percentage of the skilled workers is 76.59, and 57.38 per cent of them belong to the Hindu upper caste. A columnwise scrutiny of the data in Table 6 indicates that the percentage of the skilled workers among the workers belonging to the Hindu backward caste is lower than the corresponding percentage in the upper caste. That this is due to lack of entitlement to education for the members of the Hindu backward caste is revealed in Table 8 which indicates that the respondents belonging to the backward caste catch up their counterparts in the upper caste as soon as they get the opportunity to have general education (Table 8: columns 4 and 6). If the members of the Hindu backward caste fail to come up, the data do indicate that it is due to the lack of opportunity ingrained in the socio-economic conditions in which they are placed.

Another interesting observation from the sample of the rationalised workers in Durgapur is that the difference between the respondents belonging to the forward caste and the OBC is not conspicuous in terms of entitlement to general education (Table 9). In other words, it seems that they are exposed to a comparable set of social opportunities. Possibly, this explains the sociological phenomenon that, in West Bengal, the contradiction between the members of the forward caste and OBC is not as powerful as it is found to be in other parts of India.

Nine out of 628 respondents belong to the non-Hindu (Muslim) community. Most of them are literate and skilled workers. However, one need not read much out of these data because the respondents are quite negligible in this group.

III
Political Economy of Voluntary Retirement

VR as a measure to shed off the workforce whose marginal productivity is zero is introduced in an industrial organisation for maintaining its cost effectiveness in a competitive world. Usually this comes with technological modernisation that warrants the replacement of labour with capital. The technological modernisation improves the productivity of the existing workforce, so much so that a section of the workforce becomes redundant even when the modernisation enhances the installed capacity of the technology. The workforce that becomes redundant in this process has to be

TABLE 5: GENDER-SPECIFIC DISTRIBUTION OF RATIONALISED WORKERS

Gender	MAMC	DSAIL	HFC	Other PSUs	Non-PSUs	Total
Male	447	55	17	22	51	592
Female	23	5	3	5	1	37
Total	470	60	20	27	52	629

Notes: Data include other kinds of separation as well, figures in Tables 6, 7, 8, 9 12 and 13 also contain other kinds of separation.
Source: Field Survey, 1996

TABLE 6. CASTE AND LEVEL OF SKILL

Level of Skill	Hindu Forward	Hindu OBC	Hindu Backward	Muslim	Total
Skilled	276 (79.54)	166 (79.43)	32 (50.79)	7 (77.78)	481 (76.59)
Semi-skilled	48 (13.83)	28 (13.40)	12 (19.05)	1 (11.11)	89 (14.17)
Unskilled	22 (6.34)	13 (6.22)	17 (26.98)	1 (11.11)	53 (8.44)
Not available	1 (0 29)	2 (0.96)	2 (3.17)	0 (0.00)	5 (0.80)
Total	347 (100.00)	209 (100.00)	63 (100.00)	9 (100.00)	628 (100.00)

Notes: 1 Out of 629 workers, information was not available with respect to 1 VR-worker of MAMC belonging to the category of Sikh.
2 'Hindu Backward' is Hindu scheduled caste and scheduled tribe.
3 Percentages in parenthesis.
Source: Field Survey, 1996.

TABLE 7: ORGANISATIONWISE BREAK-UP OF WORKERS ACCORDING TO LEVEL OF SKILL

Level of Skill	MAMC	DSAIL	HFC	Other PSUs	Non-PSUs	Total
Skilled	377 (80.38)	48 (80.00)	7 (35.00)	15 (55.56)	34 (65.38)	481 (76.59)
Semi-skilled	61 (13.01)	5 (8.33)	8 (40.00)	6 (22.22)	9 (17.31)	89 (14.17)
Unskilled	30 (6.40)	4 (6.67)	5 (25.00)	5 (18.52)	9 (17.31)	53 (8.44)
Not available	1 (0.21)	3 (5.00)	0 (0.00)	1 (3.70)	0 (0.00)	5 (0.80)
Total	469 (100.00)	60 (100.00)	20 (100.00)	27 (100.00)	52 (100.00)	628 (100.00)

Note: See Table 6.
Source: Field Survey, 1996.

retired. Since the organisation operates within the existing institutional framework that does not allow the organisation to shed off the redundant workers without adequate compensation,[18] there comes an 'exit policy' the purpose of which is to minimise the cost of rationalisation under the existing institutional constraints.

ANALYTICAL FRAMEWORK

From the worker's point of view, one can envisage two alternative scenarios in which the rationalisation takes place. The first is one in which the compensation packet for the target group matches the expectation of the recipient so that there does not exist any element of coercion in the VR programme. In the perception of the VR-recipient, he earns full compensation due to the dissolution of contract by the management with respect to the labour time that he was supposed to sell in future. The problem here however is with the expected sum. Broadly speaking, the expected sum depends on the situation in the job market. If the individual worker has the expectation of getting a job elsewhere that would fully compensate for the loss he incurs in the present organisation, the expected compensation from the present organisation would be nil. If, on the other hand, the expected wage differential between the old organisation and the new organisation is positive, the expected compensation would be positive.[19]

In the absence of the alternative job opportunity, the expected compensation would be the capitalised value of his present wage over the time horizon of his remaining years in service. There would exist no element of coercion if the retired worker gets this amount of compensation. The problem arises when the sum offered by the management is less than the sum expected by the retiring worker. There may be two situations under this dispensation when the element of coercion is less pronounced. The first is a situation when the worker perceives a dissolution of contract under a situation when the organisation itself is facing a crisis, so much so that the worker cannot expect to get the entire amount of the capitalised value of his present wage as his compensation (in case of closure, suspension of work or lockout). The second is a situation faced by the workers of the advanced age-group. For such workers the dissolution of contract with a less amount of compensation may seem to be acceptable even for a running organisation because of a backward rising supply curve of labour at the advanced age.[20] The expected sum being low, the coercion may be less pronounced.

In sum, one can envisage a scenario in which, because of a complex set of reasons, the compensation packet may seem to be attractive to the target group. The VR is enforced under such a situation with little extra economic coercion.

The alternative scenario is one in which the compensation packet does not meet the expectation of the target group. This happens largely in the absence of an alternative job option that can compensate the expected wage loss due to premature retirement. The worker's strategy in that case would be to refuse the VR packet and foil the management's move to dissolve the job contract. The management, on the other hand, would try to shed off the surplus workers by taking recourse to a labour policy that compels the workers to concede so that the job contract could be dissolved without hassles. A presentable sum of compensation coupled with a psychological pressure engineered from within the organisation may be the *raison d'etre* for the workers to opt for early separation without creating political or legal hassles for the management. Dissatisfaction as regards the job, frustration with the pay and promotion policy, increasing work pressure or increasing pessimism about the prospect of the organisation may create a situation in which the victim could 'volunteer' to prmature retirement even though the compensation packet does not cover the capitalised value of his present wage or whatever had been his expectation in this regard. Such factors may be noted as indigenous factors causing VR.

Such an analytical framework does not, however, cover a possibility in which the worker may settle for a low level of compensation for reasons arising out of non-economic factors operating from outside the organisation. Family problems, individual's aversion to work due to growing fatigue and psychological aberrations of the individual, etc, are some such factors that may induce the workers to withdraw from the job market with a low level of compensation. The expected compensation in such cases is low due to extra-economic factors but these factors operate mainly outside the organisation (exogenous factors).[21]

COERCION AS A CONTRIBUTORY FACTOR TO VR

An enquiry into the reasons for opting for VR, covering 602 workers in the Durgapur industrial region, revealed that there exists a combination of various factors driving the workers to retire voluntarily (Table 10). At the outset, the data indicate that 224 out of 602 workers have opted for VR with the stated reason that they did it willingly. In terms of the analytical framework outlined above, these are the cases of VR without any apparent coercion that the workers could report about. For some reason or the other, the compensation packet offered by the management seemed to be reasonable to these workers. If we consider the organisational break up of such cases, it seems that DSAIL had the highest percentage of such VR-recipients. It seems that DSAIL had the policy of VR which did not have any coercive element in the perception of more than 80 per cent of its VR-workers. The percentage had been reasonably high in case of the other PSUs including HFC. Productively, the incidence of VR without coercion had been poor in case of the non-PSUs.

The alternative scenario in which the VR involved an element of coercion is, however, prevalent in the Durgapur industrial region. Out of 602 cases as many as 258 cases reported to have opted for VR not because the compensation amount had been attractive but because they were forced to opt for VR due to factors endogenous and/or exogenous to the organisation (Table 10). Thus, in the case of MAMC there were 211 respondents who reported that they had been coerced to opt for VR due to forces operating within the organisation. The factors that drove the workers towards VR have been recorded as frustration as regards the promotion policy, fear of transfer and apprehension of retrenchment due to possible lay off or closure and other kinds of victimisation. There had been six respondents in MAMC who cited political intervention, psychological pressure from the family, fatigue, and trouble engineered by the fellow workers causing, *inter alia*, loss of self-respect as reasons for opting for VR. Needless to say, these are not designed by the management to coerce the workers to accept the early separation scheme. If we note them as exogenous factors, altogether there are seven respondents who have opted for VR due to these factors. In MAMC, three respondents mentioned about the pressure from the management as well as from family as reasons for opting for VR. Two respondents from DSAIL belonged to this category. In case of the non-PSUs, 17 out of 30 respondents mentioned about the pressure from within the organisation as the reason for the decision to accept the early separation scheme. In case of DSAIL, HFC and the other PSUs, the incidence of coercion as a factor leading to early separation had, however, been low.

The data in Table 10 also indicate that out of 602 workers 13 could not furnish any specific reason for opting for VR; there had been 36 other cases where the respondents were not sure why they opted for early retirement. Most of such cases had been from MAMC where the management took a short-sighted view of retiring as many workers as possible by using the limited fund sanctioned by the central government so that an immediate relief comes to the organisation in terms of a reduction in monthly wage bill. It seems that these respondents (all belonging

to the 55-plus age-group) had been the victims of the confusing situation prevailing in MAMC.

It should also be noted that a fuzzy situation prevails in case of 73 respondents (3rd and 5th row of Table 10). There the decision to opt for VR had been the product of so many factors, some of which even seemed to be contradictory. Among these, there were 68 respondents who reported to have opted for VR both because they were willing and because, contradictory though, they had reportedly been forced by the organisation to opt for VR. The finding, however, is not surprising. In terms of the analytical framework developed in this section, everyone is willing to leave a job if he is adequately compensated for the dissolution of the job contract by the management. At the same time, nobody is willing to leave a job if he is not adequately compensated. The level of adequate compensation, which is notional and individual-specific, may be noted as expected compensation If the gap between the expected compensation and actual compensation is positive, the respondent would be basically unwilling to leave the job. But his intensity of unwillingness depends on the magnitude of the gap. Given this logic, the worker is willing to leave the job, without having any coercion from the management, if the gap is zero. The worker is to be coerced to leave the job if the actual compensation is zero (the gap is equal to the full amount of expected compensation). Within this range, excluding the extreme values, every case of early separation is a product of both coercion from the management and willingness of the worker to retire voluntarily.

This gives a way to differentiate among the workers opting for VR. Since the retirement had been obtained by the management for a price (the actual compensation), there is no case of pure coercion in this set of respondents in the strict sense of the term. There are, in fact, 224 cases where the workers were 'willing' to leave the job. Since nobody leaves a job willingly unless he is adequately compensated, it seems that the gap between expected compensation and actual compensation is zero in these cases. In rest of the cases, except possibly in 49 cases with 'non-specific' and 'not sure' reasons of opting for VR, the early separation had been the product of both coercion from the management and a degree of willingness on the part of the workers to retire.

The difference, of course, exists even among these respondents. It seems that the 68 cases, with apparently contradictory reasons of opting for VR, are the cases where the gap between the actual compensation and expected compensation for job loss had been lower than what it had been in the case of other 246 respondents who reported to have been forced to take early retirement exclusively due to indigenous factors.

To sum up, the element of coercion does not seem to exist in case of 37.21 per cent of the retired workers reported here. It will, however, be too much to claim that the rest, 54.15 per cent of the respondents,[22] had been forced by the management to accept the early separation scheme. The reality is a product of both coercion from the management and willingness, to a certain degree, of the worker to retire under the early separation scheme.

IV
Utilisation of VR-Funds

How are the VR-funds being utilised by the respondents? A survey on the rationalised workers in Ahmedabad reveals that most of the recipients of the fund failed to utilise it for productive purposes [Roychowdhury 1996]. The situation is not radically different in Durgapur where the recipients had largely been workers with a reasonable degree of exposure to general education. If productive investment is defined as investment in individual's enterprise, it is observed that out of 602 VR-workers only 5 reported to have invested the fund exclusively for such productive purposes (Table 11). Four out of these 5 cases had been from MAMC and the other one was from DSAIL. The areas of productive investment had been individual service enterprise (4 cases) and small-scale manufacturing unit (1 case).

Risk Aversion: Some Facts

It is observed that the large majority of the recipients of VR-fund opted for a portfolio in which there had been eight areas of utilisation of VR-fund,[23] none of which had been for the promotion of individual enterprise, i e, such enterprise in which the investor is to bear the risk of investment. It

Table 8: Caste-Specific Distribution of Skilled Workers

Caste Category	Total	General Education up to Secondary Level	Skilled with Formal Training (Out of Col 2)	(3) as Percentage of (2)	Skilled from Experience (Out of Col 2)	(5) as Percentage of (2)
	(1)	(2)	(3)	(4)	(5)	(6)
Hindu forward	347	178	124	69 66	148	83.15
Hindu OBC	209	85	58	68 24	69	81 18
Hindu backward	63	9	6	66.67	7	77.78
Muslim	9	3	2	66 67	3	100.00
Total	628	275	190		227	

Note Formal training means degree/diploma/certificate obtained. The subtraction of column 3 from column 5 would indicate workers (having general education up to secondary level) who have acquired skill exclusively from experience (without formal training) One is entitled to get formal training only after passing the secondary examination.

Source: Field Survey, 1996

Table 9. Caste and Level of General Education

Caste Category	Illiterate	Can Read and Write	Up to Primary Level	Up to Secondary Level	Higher Secondary Level and Above	Total
Hindu forward	2	0	5	263	77	347
Hindu OBC	2	3	17	137	50	209
Hindu backward	14	5	10	30	4	63
Muslim	2	1	2	4	0	9
Total	20	9	34	434	131	628

Source. Field Survey, 1996

Table 10. Distribution of Workers According to Stated Reasons for Opting for VR

Reasons	MAMC	DSAIL	HFC	Other PSUs	Non-PSUs	Total
1 Due to indigenous factors	211	4	7	7	17	246
2 Due to exogenous factors	6	0	1	0	0	7
3 Due to both (1) and (2)	3	2	0	0	0	5
4 Willing	146	50	8	12	8	224
5 Due to both (1) and (4)	58	4	3	1	2	68
6 Non-specific	12	0	0	1	0	13
7 Not sure	32	0	0	1	3	36
8 Not available	2	0	1	0	0	3
Total	470	60	20	22	30	602

Note: For explanation, see text.
Source: Field Survey, 1996.

seems that the respondents had generally been risk-averse. Even when the funds had been utilised for income generation purposes, the typical mode of investment had been that in the interest-earning assets, such as Unit Trust of India's monthly income scheme, postal savings, etc, where the investor does not bear the associated risk of investment. Out of 594 respondents, 188 respondents have reported to have taken up investment venture in such non-risk-bearing areas, 147 of these investors had been from MAMC (which constitutes about one-third of the respondents from MAMC). In the non-PSUs, also, more than 50 per cent of the respondents had reported to have taken up investment in such non-risk-bearing areas. Family commitments, including financial commitment for daughter's marriage, housing, repayment of previous loan and exigencies (mainly medical) had been the areas of unproductive expenses. These along with expenses on children's education account for 47 cases of utilisation of VR-funds. That the VR-recipients had spent their money mainly for unproductive purposes is also revealed from the data presented in row 10 of Table 11. There are 302 respondents who utilised the VR-fund in a combination of items none of which had been for enterprise building. The little bit of investment for income generating purposes that the respondents took up along with other items (described in columns 2 and 7 of Table 11) had been the investment in the non-risk-bearing assets.

There are 48 cases in which there had been some sort of productive investments out of VR-funds. These are the respondents who reported to have opted for the portfolio that contained investment for non-productive purposes too. Considering these 48 cases along with the 5 cases that reported utilisation of VR-funds exclusively for productive purposes, it is found that only about 9 per cent of the respondents may be described as risk-takers. Alternatively, as high as 91 per cent of the respondents did not find it prudent to invest their funds in risky ventures.

Inter-unit variation as regards the utilisation of VR-funds by the respective rationalised workers does, however, reveal some interesting facts. In the non-PSUs, 53.3 per cent of the respondents had reported utilisation of VR-funds for investment in the non-risk-bearing areas. Nobody in the Non-PSUs reported to have utilised the fund exclusively for productive purposes. There had, however, been one case in which a productive investment was reported, but it was a part of a portfolio which contained investment for non-productive purposes as well. In case of the other PSUs and HFC, the situation had been more or less the same. In HFC, however, not a single case of productive investment (even as a part of the portfolio of a combination of both productive and unproductive investment) was reported. In DSAIL, we observe that the propensity for investment in productive areas had been reasonably good. Out of 60 respondents, six in DSAIL took up productive investment. However, five of them had opted for the portfolio containing both productive and unproductive investments.

To sum up, the compensation that the respondents received due to the cancellation of job contract had seldom been utilised for productive purposes. Even if there is a cultural difference with their fellow brethren in Ahmedabad, hardly had there been an enterprising endeavour among the rationalised workers in Durgapur industrial region.

Risk Aversion: Some Negative Results

The lack of enterprising effort that has been observed among the rationalised workers in Durgapur needs a further analysis. The respondent's failure to invest the fund for developing individual enterprises may not be an indication of the lack of enterprising outlook *per se* among the rationalised workers. The rationalised worker may have failed to develop an enterprise for self-employment not because he does not have the desire to do so, but because he does not have enough fund, after meeting the immediate commitments, to start an enterprise of his own. One may examine this hypothesis by considering the attitude of the respondents towards self-employment in the present economic climate, and assessing to what extent he is motivated to convince his family to bear the risk involved in enterprise building. In the remaining part of this study, we would take up this exercise by analysing first the perception of the respondents on the prospect of an individual venture in the prevailing economic scenario, and then considering whether they want their families to bear the risk of investment in areas of self-employment in such a situation.

The overall perception of the respondents as regards the risk involved in a self-employment project in the present economic climate has been captured by noting the reaction of the respondents to the statement that the present economic climate is not conducive to a self-employment venture, and then by assessing his opinion on whether

Table 11: Utilisation of VR-Funds

Mode of Utilisation	MAMC	DSAIL	HFC	Other PSUs	Non-PSUs	Total
1 Productive investment	4	1	0	0	0	5
2 Housing including land	7	1	2	0	2	12
3 Loan repayment	2	0	0	0	1	3
4 Family commitment	12	4	1	2	1	20
5 Investment in education	2	0	0	0	1	3
6 Family exigencies	3	1	0	0	0	4
7 Individual unproductive expenditure	1	0	0	0	0	1
8 Investment in interest earning (non-risk)	147	10	9	6	16	188
9 Any other	4	0	0	0	0	4
10 Combination (between 2-9)	245	35	7	11	4	302
11 Combination (1 and any one between 2-9)	40	5	0	2	1	48
12 Pending/Not yet received	0	0	0	1	3	4
13 Not available	3	3	1	0	1	8
Total	470	60	20	22	30	602

Note: For explanation, see text.
Source: Field Survey, 1996.

Table 12: Average Scores on Perception by Variability Method

Stimuli on	MAMC	DSAIL	HFC	Other PSUs	Non-PSUs	Total
Economic climate	0.39	0.72	0.15	0.67	0.63	0.45
Necessity of family support	0.47	0.61	0.45	0.52	0.60	0.50

Note: For explanation, see footnote 24.
Source: Field Survey, 1996.

Table 13: Areas of Redeployment (RespondentÕs Preference)

Stimuli on	MAMC	DSAIL	HFC	Other PSUs	Non-PSUs	Total
Self-employment	185	33	6	10	25	259
Wage-employment	175	8	6	9	13	211
Both self-employment and wage-employment	52	5	4	4	12	77
Should not work	58	14	4	4	2	82
Total	470	60	20	27	52	629

Source: Field Survey, 1996.

the family should bear the risk of developing an enterprise in the given socio-economic climate. The assessment was made by administering two statements and capturing the response of the individual respondent on a three-point scale.[24] Adding up the individual scores, we get the average for each group (the results presented in Table 12). The average score being (+)0.45, it seems that on an average the respondents in the Durgapur industrial region are inclined to agree, though not in a strong way, with the statement that the present economic scenario is not encouraging for self-employment venture.[25] It is further observed that the respondents are more inclined to the opinion that the family should bear the risk.[26] In other words, the responses with respect to the qualitative questions lead one to conclude that the respondents in Durgapur generally[27] believe that the economic scenario is risky; nevertheless, the respondents further believe that the family should encourage the VR-recipients to take up the entrepreneurial activities.

Table 13 captures this mindset of the respondents when it considers the respondents' choice as regards the areas of redeployment. Out of 629 rationalised workers, 259 are of the opinion that they should seek redeployment in the areas of self-employment. Considering the other 77 cases, in which the respondents are evenly poised between self-employment and wage-employment, it seems that self-employment is by far the more preferred area of redeployment of the rationalised workers of Durgapur. While it is true that the option for self-employment is partly warranted by the fact that the rationalised workers considered in this sample largely belong to the advanced age-group who have hardly any prospect of redeployment in the areas of wage-employment, it is nevertheless true that, instead of opting for a retirement from work (i e, opting for 'should not work'), a sizeable section of these workers is psychologically prepared to try its luck in the areas of self-employment, even though this section of the VR-workers is largely aware of the fact that the economic scenario does not bear a promise for self-employment.

Why then did the rationalised workers not take up productive investment in a big way with the monetary benefit that they received after retirement? Why it is that not more than 9 per cent of the rationalised workers opted for a productive investment of their VR-fund? It seems that there had been more than one reason for this. First, the amount of VR-fund had been poor. The typical recipient started with a poor initial endowment[28] in the sense that his monetary benefit (VR-benefit, provident fund and other non-VR-benefit) had been poor for a self-employment project. Secondly, a sizeable section of the retired workers had specific commitments in the areas of non-productive expenditure that they had to honour out of the meagre fund that they received after retirement.[29] This further reduced the available funds of these workers so that no effective self-employment project could be taken up by them. Thirdly, it seems that the target group did not have an immediate plan to retire. The retirement was thrust upon them by the management. As a result, even the workers who were less encumbered with other obligations and commitments did not have any self-employment project that could be commissioned immediately after the retirement. Thus, the recycling of funds, if at all, had to be taken up in the areas of short- or medium-term investments with assured regular income. This explains the poor performance of the retired workers in the areas of self-employment projects.

World Development Report (1995) observes:

> Major transformations are associated with massive employment restructuring – many jobs must be destroyed and many new ones created. Both hires and separation increase dramatically during periods of major change creating turmoil in the labour market and uncertainty for workers [World Development Report 1995:108].

The structural adjustment programme in India warrants an employment restructuring that creates turmoil in labour market and uncertainty for workers. How does the organised labour face such a situation? On the basis of a field survey covering the rationalised workers in Durgapur, a relatively new industrial area in West Bengal dominated by the Leftist trade unions, the present paper observes that the workers in the organised sector have largely been coerced to accept the early separation scheme. The compensation that the workers received has been poor. Again, a sizeable section of the retired workers had specific commitments in the areas of non-productive expenditure that they had to honour out of the meagre fund that they received after retirement. The residual has been inadequate for starting a self-employment venture in the informal sector. Unlike what the World Bank report asserts, there is no sign of new jobs being created following the structural adjustment. As a result, it is more likely that this workforce would swell the reserve army of unemployed, thus enhancing the social cost of the structural adjustment programme in India.

Notes

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1 Such permission is required to be sought by the establishments employing at least 100 workers. The provision was first introduced in the Industrial Disputes Act in 1976 for establishments employing 300 or more workers and was subsequently (in 1982) made applicable to those employing 100 or more workers.

2 However, the private sector units often flout the provisions of section 25(O) and section 25(N) of the ID Act by taking recourse to what is known as 'suspension of work' under various pretexts.

3 *The Times of India*, September 12, 1993; quoted in Singh (1995).

4 T S Papola, however, observes, "On the basis of the data on industrial sickness available with financial institutions, it was estimated that closure of chronically sick enterprises in the central public sector would involve redundancy of about 4 lakh workers. Similar estimates in case of large and medium private-sector enterprises were at around 5 lakhs" [Papola 1994: 12-13]

In a recent study, 'Structural Adjustment – Employment and Redundancy in the Organised Sector' (ILO – ARTEP (mimeo), New Delhi, 1993), Sudipto Mundle estimates the likely reduction in workforce due to restructuring and closures of central and state public enterprises and quasi-government organisations during the next three years at 1.1 million and that in private sector at 1.3 million [cited in Papola 1994: 13].

5 So far it has been used by the central government only for workers in the public sector units.

6 Out of the six EACs under ICSI in the first phase, the information pertaining to the rationalised workers is being collected in four centres, viz, Durgapur, Dhanbad, Warrangal and Vishakapatnam. For technical reasons, the data related to two other EACs, viz, Bokaro and Tinsukia, could not be collected in the first phase of the survey.

7 Convenience sampling is a generic term that covers a wide variety of ad hoc procedures for selecting respondents [Green and Tull 1993: 210]. As in other non-probability sampling, in convenience sampling, there is no sound basis for estimating statistical confidence intervals around the sample statistics of interest.

8 VR is usually offered to a person with 40 years of age or 10 years of continuous service in the organisation. It is, therefore, unlikely that there would be any respondent belonging to 'under-30' age-group. In our sample there had been only 6 respondents belonging to the 'under-40' age-group. The large majority of the workers belongs to '50-plus' age-group which is noted here as advanced or higher age-group.

9 As transpired from the discussions with the management and other knowledgeable persons.

10 Two units under the Steel Authority of India

in Durgapur, viz, Durgapur Steel Plant (DSP) and Alloy Steel Plant (ASP).

11 There have been 52 workers in this group from 10 organisations. There had been 30 cases of VR and 22 cases of other types of separation in this group

12 As noted in Table 4, the financial liability in terms of VR-compensation for the people in the advanced age group calculated on the basis of the following package is quite high compared to what a recipient in the lower age group is expected to receive "Ex-Gratia 'payment equivalent to 1.5 months' emoluments (pay plus DA) for each completed year of service or the monthly emoluments on present rate at the time of retirement multiplied by the balance months of service left before normal date of retirement on attaining the age of superannuation, whichever is less" (Quoted from circular No 4/89 and 13/92 of MAMC)

13 Since there is no intervention from the government, there is no statutory obligation for the private sector organisations to follow a uniform VR-compensation policy In reality, the private sector units work out their own VR-packages which are not uniform and generally worse than that in the PSUs That there exists variation in the VR-compensation packages offered by various private sector units has been noted by other researchers [Ratnam 1992, Dutt 1993]. Our field data also indicate that there had been no uniform VR-compensation policy for the non-PSUs in Durgapur The average compensation in the non-PSUs had, however, been lower than that in the PSUs (Table 3)

14 VR-package in the PSUs involves a payment of 45 days salary for every completed year of service or the total salary that an incumbent is entitled to get till his retirement, whichever is less The other retirement benefits also follow the uniform pattern and contain

a) The balance in full in his provident fund account on the date of retirement payable as per contributory provident fund rules applicable to him

b) Leave salary for the unavailed earned leave.

c) Gratuity as per gratuity act or the organisation's own gratuity rules applicable to the employee

d) One month's/three months' notice pay (as per the conditions of service applicable to him).

15 Henceforth, the analysis covers other kinds of separation as well unless we discuss the issues related to the VR-workers only.

16 Women constitute about 12.5 per cent of the employment in the organised sector as against 28 per cent of the total employment in India [Papola 1993 50].

17 Among the rationalised workers in MAMC, more than 80 per cent had been skilled workers. Even in the non-PSUs in Durgapur, the percentage of skilled workers had been as high as 65.38 (Table 7)

18 In India, the institutional protection is enjoyed by the workers in the organised sector only. Organised manufacturing accounts for less than a third of the total employment in the manufacturing sector It is this sector that has organised labour and to which most of the labour legislation is actually applied. It is here that surplus or redundant staff cannot be removed, and where discipline and productivity in many cases cannot be enforced. In the other manufacturing sectors as well as in most other employment, there is no job security, no indexation of wages through dearness allowance and no benefits relating to health care, etc [Rao 1994: 313].

19 If the expected wage differential is negative, the worker would leave the job without seeking compensation The organisation may even seek a compensation for the dissolution of the contract. From the management's point of view, such workers should not be allowed to leave the organisation The VRS, particularly in the PSUs, often failed to retain such workers because the policy is not implemented with an assessment about the expected wage differential of the workers.

20 The marginal rate of substitution between work effort and leisure increases not because the worker is affluent, but because he is unable to maintain his work effort at the given wage rate due to old age.

21 Strictly speaking, the environment at the workplace is also responsible for the worker's de-motivation and subsequent withdrawal from the job market. But in the present context, this is not designed by the management as a part of the VR policy Hence, we distinguish between two sets of factors

22 Cases belonging to the 'non-specific', 'not sure' and 'not available' groups taken together constitute 8 65 per cent of the total cases.

23 The areas include housing, including land for dwelling purposes, loan repayment, family commitments including daughter's marriage, investment in education, family exigencies, individual unproductive expenditure, investment in interest-earning (non-risk-bearing) and other (unspecified) areas of unproductive investment.

24 The statements had been (1) any self-employment project under the present economic scenario is risky; (2) the family should bear this risk because this is the order of the day The attitude had been captured on an ordinal scale in which we put an arbitrary zero on 'undecided' and (+)1 for 'agreeing with the statement' and (-)1 for 'disagreeing' With an assumption of distance equivalence as in ratio scale, we get a measure by aggregating the quantitative scores and finding the average of the aggregate Thus, an average score near zero would imply that the respondents, on an average, remain undecided in their attitude with respect to the statement under consideration Alternatively, a score near (+)1 would imply that the statement received general approval and a score near ( )1 would imply the opposite with respect to the set of the respondents [Kerlinger 1973, chapter 34].

25 For example, the average score in HFC is 0.15 and that in DSAIL is 0.72. The average score is, however, largely inclined to the average in MAMC because of the disproportionately high weightage of MAMC in the total sample. Inter-unit variation in response to the statement is also noteworthy.

26 Thus, the average score for all the respondents with respect to the second statement is (+) 0.5. In the individual units, the average score is varying between (+)0.45 and (+)0.60.

27 The results of two rows of Table 12 taken together seem to suggest that there is a consistency in answers with respect to each unit (except HFC). The scores with respect to HFC-workers appear to indicate that they did not think that the economic climate is too bad for self-employment venture. Even if this was risky, the respondents were inclined to believe that the family should bear the risk.

28 See Table 3.

29 See Table 11.

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Juvenile Sex Ratios in India

A Disaggregated Analysis

S Agnihotri

This paper studies the regional variations in sex ratio patterns in India in the juvenile age group (0-9 years). Such study offers two major advantages; (a) the juvenile sex ratios (JSRs) are not affected by migration and therefore, (b) their analysis provides useful insights into patterns of differential mortality among children by sex. A disaggregation of these sex ratios into the 0-4 and 5-9 age groups brings into sharper focus the pattern of excess female mortality beyond the age of one year. This is a socially driven phenomenon as against excess infant male mortality which is essentially a biological phenomenon. The female to male ratio (FMR) in the 5-9 age group emerges as an appropriate parameter for analysis of the sex ratio variations across the country. It reveals significant differences in the sex ratio patterns among three major social groups, viz, the tribal, the scheduled castes and the rest of the population. It displays a remarkable spatial contiguity across different geophysical regions of the country. These regions turn out to be a more suitable unit for analysis of spatial variations in the sex ratios than the administrative units of different Indian states. Certain regions, cutting across the state boundaries, stand out for their alarmingly low FMRs. The observed patterns raise important questions about design of women and child welfare programmes and indicates the need for plurality in their design and for area and group specific interventions.

I

SEX ratios in India are highly masculine compared to most other regions in the world. The proportion of females in its population continues to decline and stands at 927 females per thousand men in the 1991 population Census. The female male ratios (FMRs),[1] however, are neither uniformly low nor uniformly declining across different regions in the country and show a considerable variation across these regions. These variations have attracted considerable attention in literature, dominated by one major feature; the 'north south' divide.[2] This refers to the highly masculine sex ratios in the north-western states and more favourable FMRs in the south-eastern states of India. Concern has also been expressed at the growing masculinisation of the sex ratios in the south-eastern states over the years [Miller 1989; Heyer 1992].

Apart from recognition of this 'divide', different correlates of these sex ratios have also been analysed; economic as well as socio-cultural. The economic factors have mainly been analysed in terms of female labour participation as a determinant of female 'worth' [Bardhan 1974; Miller 1981; Rosenzweig and Schultz 1982 and Meis 1988]. Recently, the role of capital in terms of dowry has also been examined in greater detail [Heyer 1992; Rao 1993; Wadley 1993; Kapadia 1994].

Studies of the role of socio-cultural factors has mainly focused upon the status of women shaped by culture [Dyson and Moore 1983; Dasgupta 1987; Berreman 1993; Madan 1993]. Different kinship systems in the north and the south and the process of assimilation of a woman into the family of her marriage have informed the bulk of this analysis which has by and large been qualitative. In the absence of suitable quantitative data and analysis, the debate on the cultural aspects has not moved much beyond highlighting the north-south divide. Given India's cultural diversity, this is not adequate.[3]

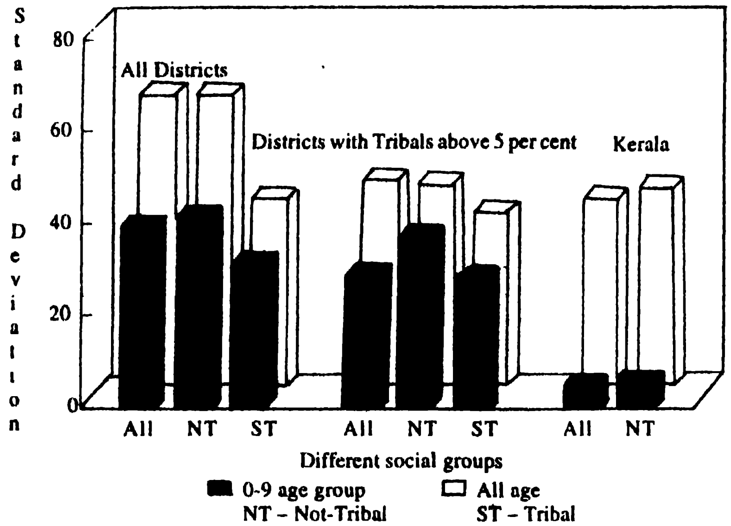
This paper elaborates upon this regional diversity. It departs from the conventional analyses on four counts. It uses district level data. Further, it uses juvenile sex ratios (JSRs) instead of overall population sex ratios to cut down the migration 'noise'. It then disaggregates these among three major social groups – the tribal, the scheduled castes and the rest of the population. The sex ratio patterns among these three groups differ significantly – a point which has been consistently overlooked in the literature.[4] Finally, the juvenile FMRs are broken down into 0-4 age group and 5-9 age group FMRs to capture the differences in the mortality patterns in the juvenile age group. The effect of excess male mortality during infancy gets reflected in the 0-4 age group FMRs while the 5-9 age group FMRs capture the excess girl child mortality in later years of the childhood.

The received literature uses state-level sex ratio data for much of its analysis.[5] It also uses the all age group sex ratios, not corrected for migration. Differences in sex ratio patterns among the tribal, the scheduled castes and the rest of the population have also not been systematically analysed. Separate analysis of the 0-4 and 5-9 age group FMRs has also not been done earlier.

We use the 1981 Census data, which has for the first time provided the five year age group break up for the scheduled tribe and the scheduled caste population. We use the data in respect of 355 districts based on the Indian District Development Database[6] and the special tables for scheduled castes and scheduled tribes from the 1981 Census reports. As random fluctuations in sex ratios are large for small population sizes,[7] we have not considered districts with very low population of tribal or scheduled castes in the analysis of the SC or ST FMRs. Districts in the north-eastern region have also been excluded from the analysis.[8] Data from the 1991 Census for the five year age groups is yet to become available.

Using these data, we (i) show that the JFMRs are free from 'migration noise' which affects the all age group FMRs, (ii) bring out significant differences in the FMR patterns among the ST, SC and the rest of the population and (iii) show that the 0-4 and 5-9 age group FMRs differ significantly from each other. The 0-4 age group FMRs capture the excess male infant mortality, essentially a biological phenomenon, while the 5-9 age group FMRs capture the patterns of excess female mortality that set in during later years of childhood. These reflect the different extents to which the biological advantage of the female infant is 'reversed' beyond the age of one year in different regions mainly

Figure 1: Comparing FMR Variances
All age group and juvenile age group



through discrimination against the girl children which is a socio-cultural process.

The FMRs in the 5-9 age group show a remarkable homogeneity within different ecological or geophysical regions. These regions sometimes cut across the boundaries of different states and a state often contains more than one such region. It turns out that these regions provide a much more satisfactory basis of spatial analysis than the states. One immediate outcome of focus on these regions is the identification of a 'Bermuda Triangle' for the female child;[9] a region cutting across districts of Haryana, western UP, three districts of Rajasthan and the ravines of MP with alarmingly low FMRs. This has important implications for the woman and child welfare policies and the design of interventions.

The paper is organised in five sections. Section II examines the suitability of the JFMRs over the all age FMRs in the context of migration. Section III elaborates upon the need to disaggregate the 0-9 age group FMRs into 0-4 and 5-9 age group FMRs and examines their broad spatial variation across different regions. Differences in the FMR patterns among the tribal, the scheduled caste and the rest of the population are highlighted. The regionalisation of sex ratios is examined in further detail in the next section, primarily in respect of the 5-9 age group FMR. Usefulness of grouping by geophysical regions over the states as units of spatial analysis is established. Final section summarises the implications and the scope for further research.

II

The Migration Factor

Analysis of regional variations in sex ratio patterns in India has often relied upon data not corrected for migration and continues to do so. While female migration in India mostly arises on account of marriage, most of the long distance migration is heavily male dominated and arises out of economic reasons.[10] High net male inmigration in metropolitan areas, net male outmigration from Kerala or the male dominated inmigration among the non-tribal population of some of the north-eastern states bear this out. This results in considerable variation in the FMRs at the district level, e g, 772 for Bombay, 1032 for Kerala and, 558 for non-tribal Nagaland.

Juvenile FMRs do not suffer from such fluctuation as there is hardly any sex selective migration in that age group [see Miller 1981]. This can be seen by comparing the JFMR for Bombay; 934, compared to the all age FMR of 772 or the JFMR figures for the districts of Kerala (Table 1) with the all age FMRs not corrected for migration. Both Sopher (1980) and Miller (1981) have used the JSRs in their analyses of the regional variation of the sex ratios at the district level. Use of JSRs has nevertheless not gained currency in subsequent analyses and some of the debate about sex ratio variations still continues around the role played by migration.[11]

Table 2 establishes this feature of the JFMR through comparison of variance for the all age group FMRs and juvenile FMRs at all India level. Variance of the JFMRs is considerably less compared to that in the all age group FMRs for the total population as well as its tribal and non-tribal segments. Districts with significant tribal population, i e, above 5 per cent of the overall population yield similar result. The reduction is much sharper for the state of Kerala known for its pattern of net male outmigration (Figure 1).

The difference between the all age FMRs (mean 936.1) and juvenile FMRs (mean 957.8) is highly significant at 1 per cent level and below (t-value of 7.93) as revealed by t-test for paired samples. That JFMRs are free from migration 'noise' can also be inferred by analysing the urban and the rural FMRs. The low mean for the urban FMRs; 895 females per thousand males compared to a mean of 946 females in rural areas is consistent with net excess male inmigration in urban areas. The difference between these sex ratios; urban and rural, is highly significant at 1 per cent level and below (t-value of 16.3).

If sex selective migration between urban and rural areas is insignificant in the 0-9 age group, the rural and urban JFMRS should not differ significantly. This is indeed the case. The mean for the JFMR for the overall population in rural area 955 and that in the urban areas, 958, are close to each other and the difference between them is not significant at 5 per cent level (t-value of -1.76).

Migration data from the Indian census do not provide the composition of the migrant population in terms of social groups. A comparison of all age FMRs and the JFMRs among these groups, e g, tribal or the scheduled castes can throw interesting light on the nature of migration among these communities. But this point is not pursued here further.

III

Once migration effects are eliminated, sex ratios are primarily determined by the male female mortality differentials. As such, the JFMRs will be determined mainly by the pattern of deaths among the children within the 0-9 age group.[12]

In India, a substantial portion; nearly 60 per cent, of the deaths in the 0-9 age group occur during infancy, i e, in the 0-1 age group. Deaths in the 1-4 age group account for little above 30 per cent whereas deaths in the 5-9 age group account for the remaining 10 per cent.[13]

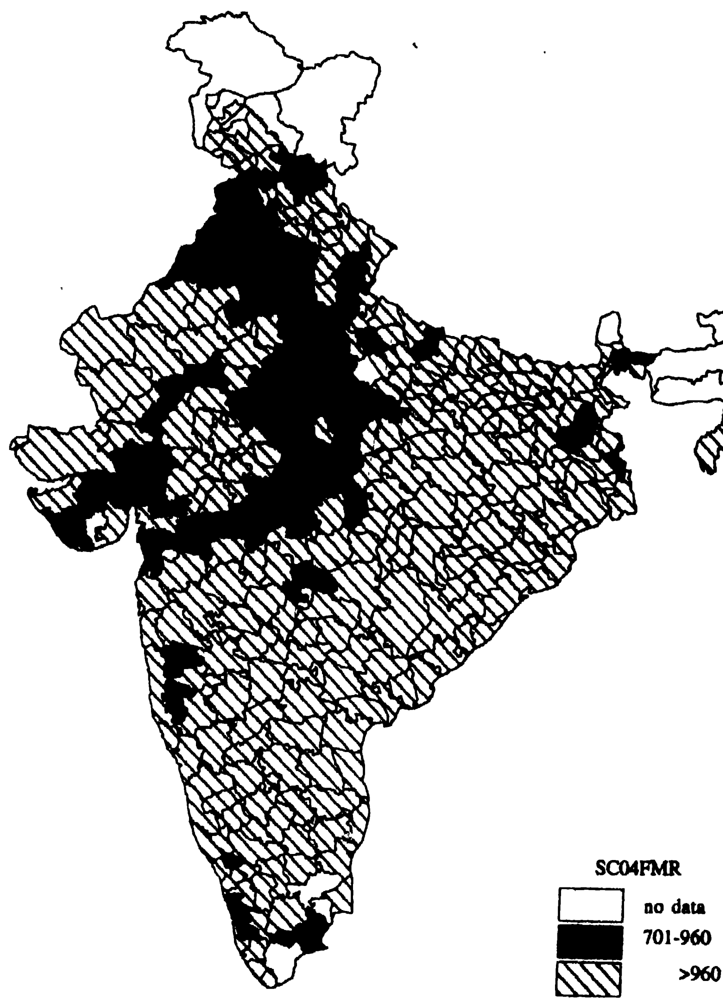
Different Mortality Patterns

There is however, an important difference in the pattern of these deaths. During infancy, there is always an excess of infant male

Table 1: Comparison of All Age and 0-9 Age Group FMRs in Kerala

District	All Age FMR	0-9 Age FMR
Cannanore	1034	974
Wayanad	949	979
Kozhikode	1020	976
Malappuram	1052	964
Palghat	1056	986
Trichur	1100	971
Ernakulam	998	967
Idukki	963	991
Kottayam	1001	969
Alleppey	1050	977
Quilon	1026	971
Trivandrum	1030	977

FIGURE 2a: 0-4 FMRs FOR SC POPULATION



mortality. This is due to inherent vulnerability of the male infant compared to the female infant in a health neutral environment [see among others Miller 1989; Caldwells 1990; Mukherjee 1986; Government of India 1988b]. This physiological advantage of the female child gets reversed from the age of one onwards and by the age of 5 excess female mortality becomes the norm. It is marginal in some areas, significant in some others and substantial in yet others. District level estimates of the probability of death based on the 1981 Census data [Government of India 1988b] bear this out. The q1 and q2 tables, which indicate the probability of a child dying by the first and the second year respectively, indicate excess male mortality. At q3, i e, by the age of three years, the survival chances for both the sexes are nearly balanced while at q5 level the girl children show a higher mortality.

The strong reversal of the mortality pattern after infancy in south Asia is well recognised and attributed to the differential care of the girl child or to put it more plainly to her access inequality to food, nutrition and care including health care compared to the male child.[14] This is essentially a socio-cultural process linked with the perceptions about the role of the sons and the daughters, and reflects the 'son preference',[15] its extent and its operational consequences. As a matter of fact excess male mortality is never ascribed to any discrimination against the male members of the household whereas excess female mortality is more often than not attributed to such a discrimination. To that extent one can term the excess male child mortality as natural and the excess female child mortality as socio-cultural. The former is driven by exposure to health risks and possibly the absence of effective health care, while the latter is driven by access inequalities described above.

Juvenile sex ratio aggregates both these mortality patterns. It is a combined ratio of 10 single year age cohorts. The first two cohorts among these will reflect the pattern of excess male mortality during infancy while the subsequent eight cohorts will reflect the reversal of this pattern to various degrees. If we were able to disaggregate the JFMRs into two age groups; the 0-2 age group and the 3-9 year age group, some significant differences could be anticipated between the two.

The FMR in the 0-2 age group (0-2FMR henceforth), would show preponderance of female children compared to those in the 3-9 age group (3-9FMRs). Further, as the excess male mortality during infancy is a biological phenomenon, it will be distributed randomly across different regions and there should not be any significant spatial variation.[16]

The 3-9FMRs on the other hand will reflect the effects of discrimination against the girl children driven by the socio-cultural practices. These practices vary from region to region in their extent and nature. As such the 3-9FMRs can be expected to display a less random regional distribution. We can in fact expect these FMRs to be significantly contiguous within different socio-cultural regions and significantly different across these regions.

Such differences will also be observed across different social groups, e g, the tribals, the scheduled castes and the rest of the population which differ in terms of the position of women in their society. It will

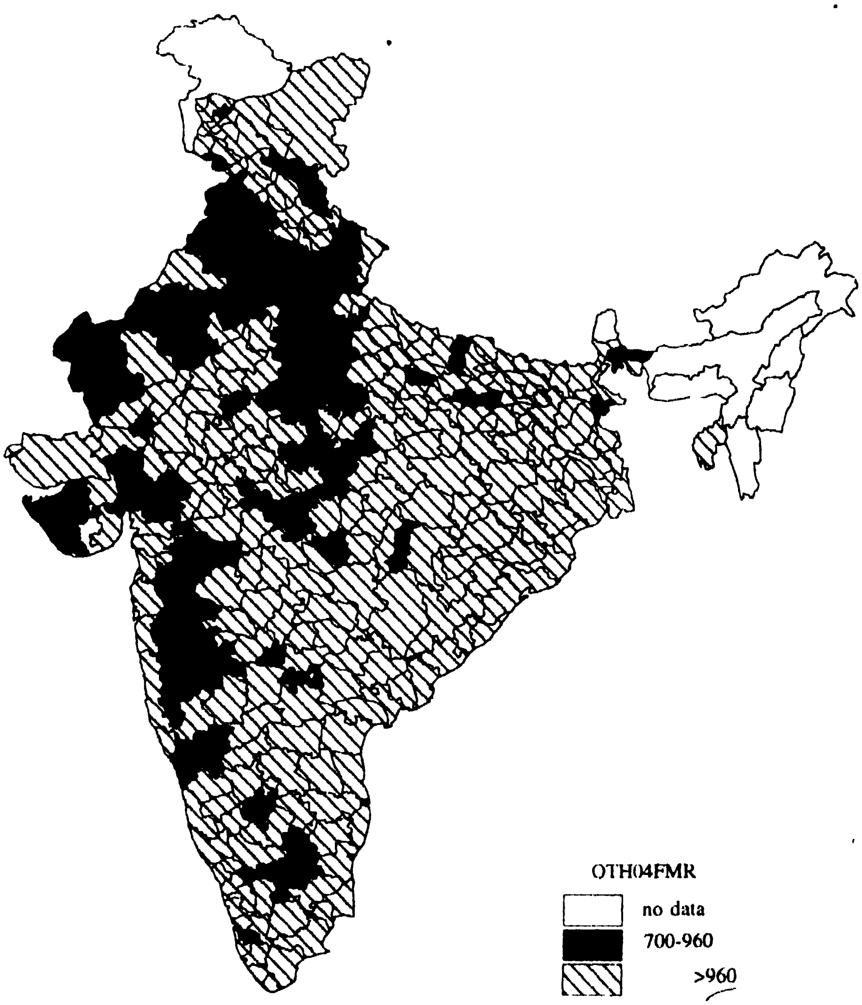
TABLE 2: ANALYSIS OF VARIANCE OF MFRs, 1981

(Female per 1,000 male)

Variable	All Age Group FMRs			Juvenile Age Group FMRs		
	Mean Value	Variable	Std Dev	Mean Value	Variance	Std Dev
						355 districts
All FMR	936	4095	64	958	1678	41
NT FMR	934	4034	64	957	1835	43
Districts with tribal population above 1 per cent of the total population						189 districts
ST FMR	963	1751	42	988	1068	33
Districts with tribal population above 5 per cent of the total population						125 districts
All FMR	949	2140	46	981	976	31
NT FMR	942	2024	45	979	1534	39
ST FMR	974	1548	39	993	903	30
Kerala						12 districts
All FMR	1023	1730	42	975	59	8
NT FMR	1022	1920	44	975	62	8

Note: Variable description: All FMR - FMR for total population; NTFMR - FMR for non-tribal population; and STFMR - FMR for all age group and tribal population.

Figure 2b: 04FMRs for Non-ST/SC Population



be worthwhile to explore therefore, the differences in the FMR patterns between these two age groups; 0-2 and 3-9 years, across different regions and social groups.

Unfortunately, the suitable census data available for this purpose is the 5-year age group data at the district level. Even this break-up has become available separately for the first time for the tribals and the scheduled castes in the 1981 Census. As a result one can only use the 0-4 and 5-9 year age group data for working out the FMRs among these age groups.

We could nonetheless examine the sex ratio patterns among the 0-4 age group and the 5-9 age group. The differences in the 04FMRs and the 59FMRs may not be as sharp as those between the 02FMRs and the 39FMRs. Yet, valuable insights may be obtained through such an exploration. The 04FMRs would contain two additional single age group cohorts in addition to the three in the 02FMR. Both these will carry the effects of excess female mortality that sets in by the age of three years. As such the 04FMR values will be lower than those for the 0-2 age group and the randomness in the spatial variation may also be less.[17] But this 'blurring' may get compensated in the patterns that 59FMRs reveal. The five single year age group cohorts that contribute to the 59FMR will reflect the mortality pattern from the age of 5 and above; a stage where the pattern of excess female mortality has already 'stabilised'. As a result we may expect the 59FMRs to be significantly lower than the 04FMRs and to reflect the regional differences more sharply. We will see if this really happens.

Before analysing these differences in detail, we examine the district level maps of these FMRs for different social groups. These maps give a clear idea of the variations in the sex ratio patterns across different regions for the two age groups and the three social groups. Figures 2a and 2b show the 04FMRs for the SC and the non-ST/SC or the general population separately (in this paper the terms non-ST/SC, general and others will be used interchangeably). Figures 3a, 3b, 3c display the 59FMRs for the SC, general and the tribal population.

Setting aside the niceties of sequencing, we first examine the 59FMR map (3b) for non-SC/ST population. Four broad FMR ranges which are more or less spatially contiguous can be noted. The region with lowest FMR range; below 900, spreads across the plains north of Narmada. It contains a 'hard' core area of alarmingly low FMRs; below 850; spanning 21 districts in Haryana, western UP, north eastern Rajasthan and the ravines of MP. The next range of FMRs between 900 and 950 covers most of the remaining districts in the plains in the north, districts of West Bengal, districts in the central regions and descends across Narmada into south through Jalgaon, Dhule and Nasik districts of Maharashtra. The gradual 'recovery' of the FMRs and the contiguous contours make the description of 'pit with sloping sides' very apt for the region with very low FMRs [Oldenberg 1992].

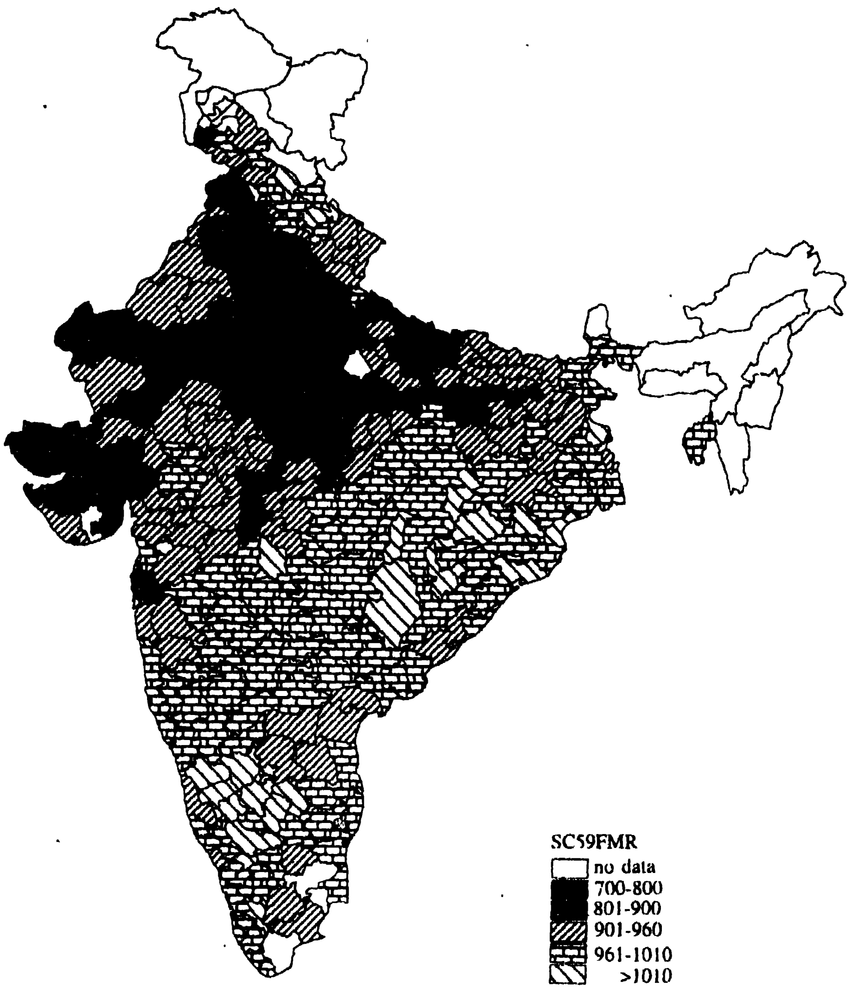
The remaining regions in the south-eastern states have 59FMRs above 950. The hilly state of Himachal Pradesh, Jammu and Kashmir and hill districts of UP also have FMRs above 950. There are some 52 districts in the south eastern region, in different contiguous patches where the 59FMRs are above 1000. One significant block covers Telangana region of Andhra, Chandrapur in Maharashtra, Chhattisgadh in MP and the tribal tract of Orissa. Most of these districts are known to be economically poor and backward.

The 59FMRs for scheduled caste population follow a similar pattern (Figure 3a), but the FMRs are disturbingly low in the northern region. There are 24 districts with 59FMRs below 800. This situation, to put it mildly, is scandalous. Oldenberg's (1992:2658) use of the term 'Bermuda triangle for the girl children' will be applicable for this region.

The range of 59FMRs below 900 for the SC population spreads over a larger area covering 107 districts, all confined to regions north of Narmada. The next FMR range of 900 to 950; in 79 districts, does make inroads in the Rayalseema region of Andhra and in Salem region of Tamil Nadu. Rest of the districts, 110 in number, mostly in south-east have FMR range between 950 and 1000. The contiguous patches of FMR above 1000 in 43 districts in the south eastern region more or less coincide with the districts where 59FMR for the general population are also high.

For tribal population the 59FMR rarely goes below 900 (Figure 3c) except in 11 districts of Rajasthan.[18] The next set of about 45 districts in the FMR range of 900 to 950, lie mainly in the plain regions of Rajasthan and northern MP. Another contiguous cluster covers the Rayalseema region of Andhra and its adjoining regions in Tamil Nadu. Most other districts; 133 in numbers, have FMRs above 950 with a sizeable number; 45 among

FIGURE 3a: 59FMRs (SC)



them, having FMRs above 1000. Most of the districts of north-eastern states have FMRs in range of 950 to 1000. We have, however, not included these in our analysis as indicated earlier.

The 04FMRs for the scheduled caste population (Figure 2a) reveal a contiguous patch of about 80 districts with 04FMR values below 950. There are only 12 districts where the 04FMRs go below 900. In rest of the districts the 04FMRs are above 950; in 96 of them 04FMRs exceed 1000. The contiguous patch of low FMRs is confined to the north-western belt. It starts from the plains of Punjab and Haryana, and through plains of western UP and ravines of Madhya Pradesh descends down to East Nimar and West Nimar districts of Madhya Pradesh. Another patch starts with Ajmer in Rajasthan and descends down the Pali, Sirohi route to the plains of Gujarat down to Vadodara. But for Nagaur and Sikar districts it could have joined the Haryana region in a contiguous chain.

The pattern of 04FMRs for the non-ST/SC population (Figure 2b) is similar but more intriguing. The number of districts with FMR below 900 is only 8, and those with 59FMRs below 950 is 85. These form a contiguous tract which again descends down the plains of Punjab, Haryana and western UP, to Hoshangabad and Betul districts of MP. But it makes further ingress into the south across Khandesh region of Maharashtra, into its western ghat region and goes as far as inland Karnataka. (Permitting a minor liberty taken with FMR in East Nimar (969) and Bijapur (965) districts.) The belt joins up with the Sirohi, Vadodara belt through Khandesh region of Maharashtra and, except a break in Ajmer district, joins the Haryana plains through the Pali, Nagaur and Sikar.

There are other stray cases of districts with low 04FMR. Two of these deserve attention; Lahaul and Spiti and Kinnaur in Himachal Pradesh and Salem in Tamil Nadu. Lahaul and Spiti and Kinnaur districts stand out for their low FMR values for both the 0-4 and 5-9 age groups. Being situated in a zone with otherwise favourable sex ratios these present an anomaly that needs to be investigated.

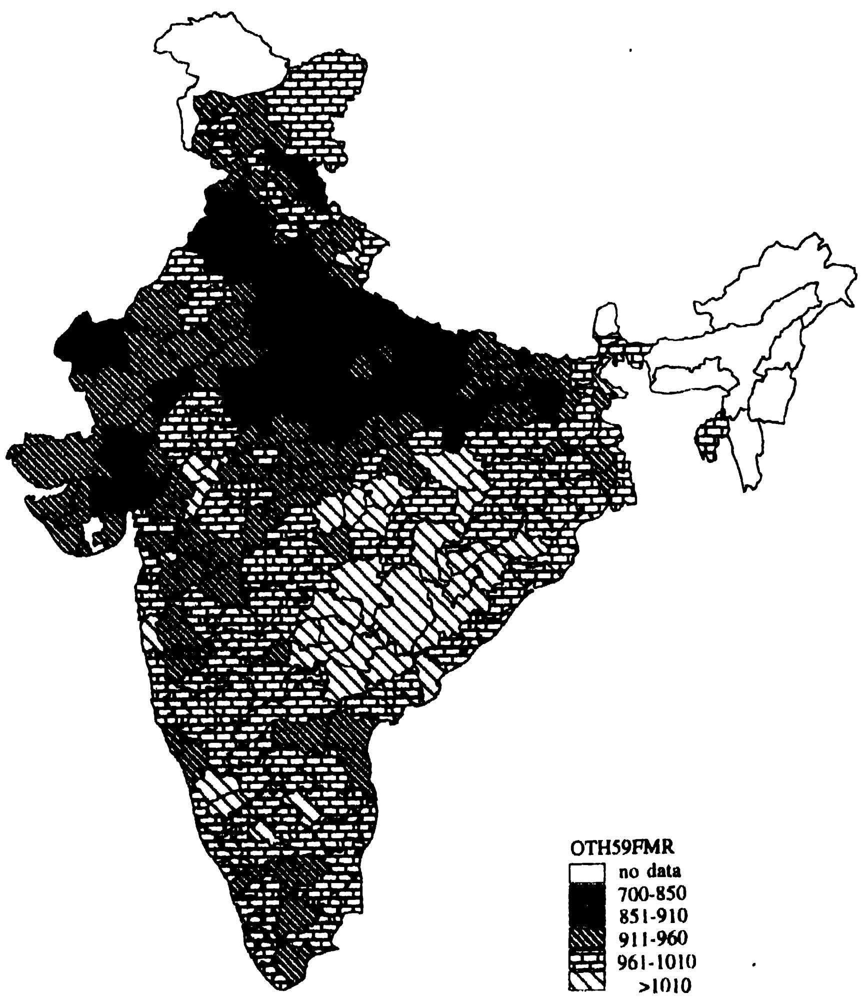
Salem district has already been in focus for the practice of sex selective infanticide [George et al 1992:1153-57]. Such practice in large numbers will automatically show up in low 04FMRs and this is precisely the case with Salem. It is the only district in south where 04FMR value goes below 900 (876 for the non-ST/SC). It is pertinent to suggest that a focused search for extremely low values of 04FMRs among different regions and groups at block levels (for which 1991 Census data is available), may be a very useful method of detecting areas where sex selective infanticide or foeticide may have assumed serious proportions.

Low 04FMRs are in any case indicative of the regions where the excess female child mortality has made ingress into early years of childhood. As such these indicate intensification of anti-female bias. In view of the concerns expressed by Miller (1989) and others about the ingress of northern sex ratio patterns into the south, the route of low 04FMRs described above assumes significance. If such ingress is taking place it is most likely to take place along the route of cultural circulation between the north and south. The low 04FMR route appears to coincide more or less with this route of cultural circulation.[14] This aspect needs attention from a combined perspective of cultural geography, gender and demography. This issue is intended to be pursued in further details once the five year age group break-up for different social groups in the 1991 Census becomes available.

Among the tribals, 04FMRs rarely go below 950 (8 districts) and are above 1000 in majority of districts (about 116). In 16 districts out of these the 04FMR exceeds 1050. There are no particular spatial patterns. As such a district level map is not presented here.

We thus find that the disaggregation of the juvenile age group FMRs into 59FMR and the 04FMR is a useful one and these FMRs have significantly different patterns. We can therefore proceed to examine in some detail, the differences between these FMRs for different regions and different social groups. We first analyse the differences between the 09FMRs, 59FMRs and 04FMRs for different groups and examine the hypothesis that the 04FMRs will be significantly higher than the 59FMRs. This indeed happens to be the case. Table 3.1 provides the data for the overall population, as well as its three segments the tribal, the scheduled caste and the rest. For all these groups the 04FMRs are significantly higher and 59FMRs significantly lower. The gap between 04FMRs and 59FMRs is pronounced for the SC population and becomes even more so if we take the 94 districts where the SC population accounts for above 20 per cent of the district population. This gap is less pronounced for the tribal and tends to narrow down as we go to the 50 districts which have 20 per cent or more tribal population.

FIGURE 3b: 5-9F AGE-GROUP FMR NON-SC/ST (1981)



more evenly spread across different regions and do not differ significantly within the non-tribal population, i e, between the SC and the non-ST/SC group. The 04FMRs for the tribals are different and have quite high values, typically above 1000.

The 59FMRs on the other hand, assume much lower values, differ between the three social groups significantly across different sub-samples of the districts. They show a remarkable contiguity across different regions and vary over a much larger range than the 04FMRs are. In certain regions they have alarmingly low values.

The relatively even range of the 04FMRs compared to the 59FMRs can be seen through an analysis of variance in the two FMRs over same set of districts and social groups (Table 4). The variance or the standard deviation in the 04FMR values is considerably lower than that for the 59FMR values. The pattern persists in the sub-sample of districts where the SC or the ST population percentage exceeds 20 per cent.

Thus we find that 59FMR satisfactorily captures the socio-cultural patterns of excess female mortality in the juvenile group. Lower 59FMRs indicate adverse survival conditions faced by the girl children compared to the male children while higher 59FMRs indicate less discrimination between the two.

We can notice that the districts with low 04FMR also have low 59FMRs. They will rarely, if at all, have high 59FMRs. Districts with high 04FMRs, on the other hand, can have low 59FMRs; typically in the north-western region, or high 59FMRs; typically in the south eastern region.

We thus get four categories of districts: (a) those with low 04FMRs and low 59FMRs, (b) those with high 04FMRs but low 59FMRs, (c) those with high 04FMRs and high 59FMRs, and (d) those with low 04FMRs and high 59FMRs.

The first category covers districts where the pattern of excess female mortality gets established during infancy, or in extreme cases even before it through infanticide or sex selective abortions. The second category will be indicative of the districts where the excess female mortality sets in during later years of childhood. The third category of districts will be the ones where the discrimination against the girl child is not very strong. The last category will hardly be encountered anywhere as the pattern of excess female mortality that sets in early is unlikely to be reversed in later years of childhood.

One possible way of grouping different districts is the percentage of the scheduled caste or scheduled tribe population. This has been used in some of the recent analyses [Kishore 1993; Murthy 1995] and we have used it above. The concentration of the scheduled caste or the tribal population by itself may not, however, be a very useful indicator

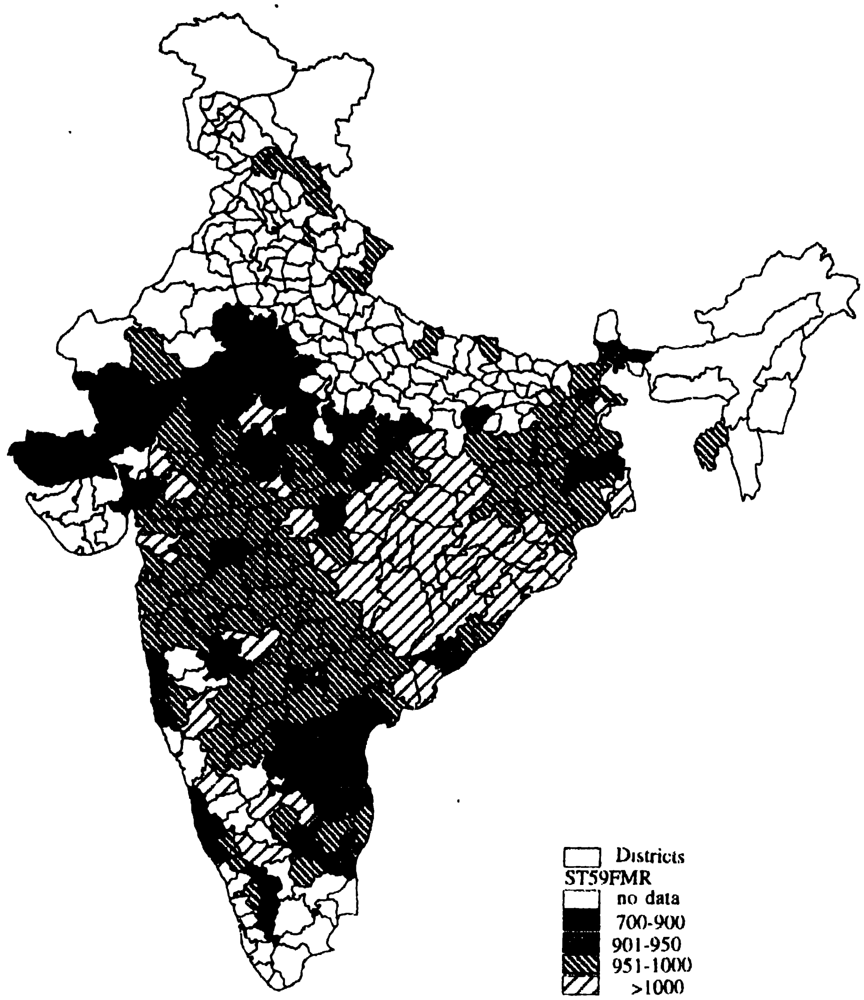
We next examine the differences in the 59FMRs across different social groups (Table 3.2). This is done for the 355 districts as well as for districts with different concentration of scheduled caste and scheduled tribe population. The 59FMRs for the overall population, the non-tribal population and the non-ST/SC population do not differ significantly from each other. But the 59FMRs for the SC population (339 districts) and the tribal population (189 districts) differ from these significantly. The difference between the 59FMRs for the SC and the non-ST/SC population remains significant when we take sub-samples of districts with increasing concentration of the SC population. The 59FMRs for the non-ST/SC and the tribal population also differ significantly in these sub-samples and so do the 59FMRs among the tribal and the scheduled castes. FMRs for tribals are high, FMRs for the scheduled castes are low while those for the non-ST/SC population occupy an intermediate position.

When we group the districts by the percentage of tribal population, the difference between the tribal and the non-ST/SC population FMRs becomes insignificant while the 59FMRs for the SC population remains significantly different and low. The difference narrows down considerably in the 50 districts where tribal population is above 20 per cent of the district population.

When we compare the 04FMRs between the three social groups (Table 3.3) we find that these do not differ significantly among the SC and the non-ST/SC groups. 04FMRs for the tribal population are, however, significantly higher in all the groups of districts and have a mean value above 1000. As the percentage of tribal population goes from 1 per cent to 20 per cent, these FMRs show an increasing trend for all the three groups. But when the SC population percentage increases similarly, the 04FMRs for the SC and the non-ST/SC group shows a declining trend. The 04FMRs for the tribal population remain unaffected.

We thus see a clear difference between the two 'layers' within the juvenile age group FMRs: the 04FMRs and the 59FMRs. The 04FMRs are significantly higher then the 59FMRs for the three social groups and different sub-samples of districts. They are

Figure 3c: 59FMRS (Tribal Population)



of the differences in the survival patterns by sex. The 59FMRs can, as we have seen above, be more useful indicators of such differences and so can the 04FMRs; at least at the lower end of the range. It will be relevant therefore to examine the differences in FMR patterns by different FMR ranges.

This analysis is presented in Table 5. We examine the 04FMR and 59FMR patterns for different sub-samples of districts grouped according to different 59FMR ranges. Four ranges of 59FMRs are chosen: (i) below 900, (ii) between 900 and 950, (iii) between 950 and 1,000, and (iv) above 1,000. For SC 59FMRs an additional range of very low FMRs (below 800) is also considered.

We analyse both 04FMRs and 59FMRs in these ranges for the three social groups. We also look at the drop from the mean 04FMR to the mean 59FMR for the given set of districts. The extent of this drop indicates the survival adversity faced by the girl children. We find out how the three social groups fare within different sub-samples relative to each other.

There are 24 districts with 59FMR for SC population below 800. The 04FMRs in these districts are low (mean 901) as well. The non-ST/SC population fares relatively better (mean 04FMR 940), but only relatively. Clearly, the adversities in survival impinge upon the girl children among the scheduled castes more sharply. The drop from the mean 04FMR to the mean 59FMR is 138 points for the scheduled castes and 92 points for the others. There are only three districts in this group with significant tribal population, viz, Bharatpur and Sawai Madhopur of Rajasthan and Morena of MP.

In the 107 districts where 59FMRs for the SC population are below 900, the pattern of adverse survival for the girl children of the scheduled castes persists. While the 04FMRs for the SC population are higher compared to the previous group of 24 districts and are comparable to those for the general category, the 59FMRs remain significantly lower. The drop between mean 04FMR and mean 59FMR is 105 points for the scheduled caste population compared to a drop of 64 points for the general category. The 04FMR for the tribal population in 30 districts are high (mean of 993) but the drop from 04FMRs to 59FMRs (mean of 925) is quite large. Even though the 59FMR for tribal in these districts are higher compared to those for non tribal, these are not high in terms of the FMRs for the tribal population.[20]

In the next range of 59FMRs between 900 and 950, one finds that the 04 FMRs improve sharply for both the SC and the general categories. The 04FMRs for the tribal remain significantly higher, though the gap between these and the 04FMRs for the non-tribal groups is quite narrow now. But the 59FMRs for the SC population remain significantly low while those for the tribal population improve considerably. The 59FMRs for the general category occupy intermediate position.

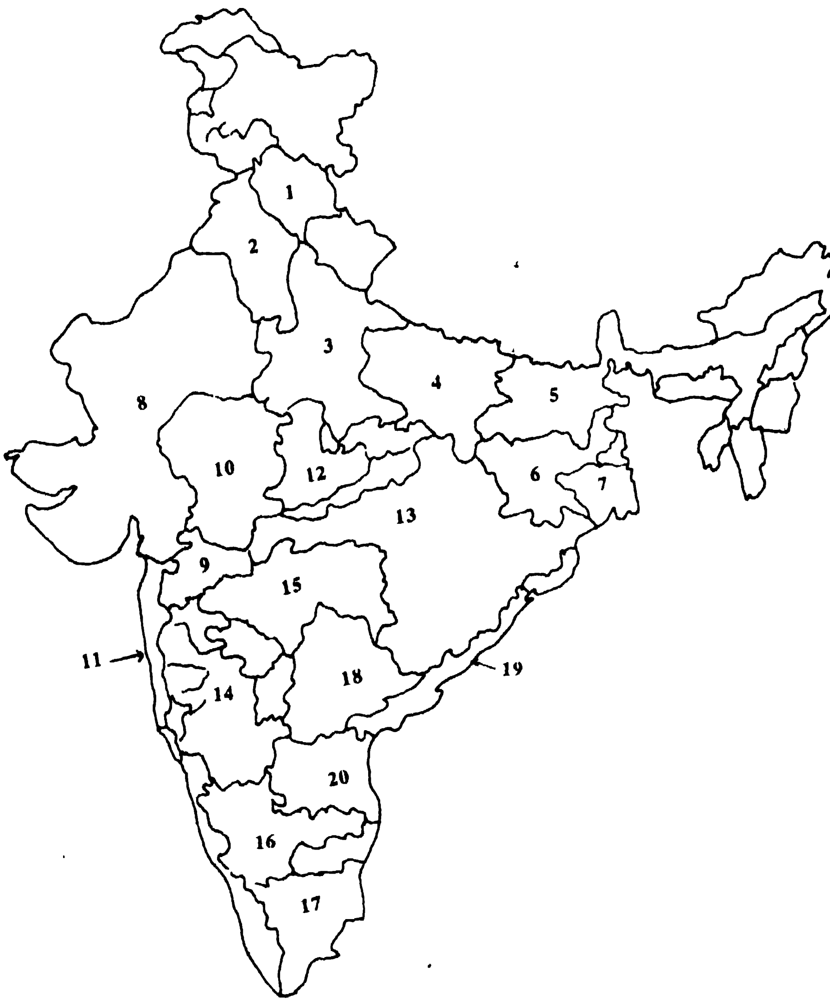
As the 59FMR for SC population rises above 950, the 04FMRs for the SC and ST population converge and become significantly higher than those for non-ST/SC groups. This is seen more sharply in the next range where the 59FMRs for the SC population exceed 1,000 in 43 districts. The difference in the 59FMRs for the three groups is insignificant.

We now examine the sub-sample of 189 districts with tribal population above 1 per cent. Slightly different results are obtained at the low FMR end. In the 11 districts of Rajasthan with 59FMR for the tribal is below 900, the 04FMRs are comparable for all the three groups and fall in the range of 955 to 970. But the drop to 59FMRs is sharp for both the tribal and the SC population. These are comparable and are lower than those for the general population. This pattern remains more or less the same for the 56 districts (mostly in Rajasthan and Madhya Pradesh) where the 59FMRs for the tribal population are below 950. The FMRs for the tribal population, in both 0-4 and 5-9 age group, become significantly higher than those for the SC population in the FMR range of 950 to 1,000 (88 districts), and higher than those for both SC and non-SC/ST group in the 1,000 plus range.

When we take the 21 districts where the 59FMRs for the non-ST/SC population are below 850, the 04FMRs for the SC and the general category are comparable (there are only six districts with significant tribal population). But the drop between mean 04FMR and mean 59FMR is far sharper for the SC population and their 59FMRs are still significantly lower, than those of the non-ST/SC population.

It thus appears that the scheduled castes are worse off at the lower end of the 59FMR range no matter what the selection criterion is, i e, 59FMR for the SC, ST or the non-ST/SC group. Further, at this end, the girl children among tribal and the SC groups fare worse than those in the non-ST/SC population. The situation in the tribal pockets improves quite sharply but that does not happen for the scheduled castes. This may

Figure 4: Regional Clusters



have something to do with the pattern of 'assimilation' of these two groups in the 'mainstream' of the society – tribals have been relatively isolated from this 'mainstream' even where their population percentage is moderate [Raza and Ahmad 1990]. But we would not pursue this discussion here.

While the patterns observed at the lower FMR end provide certain insights into the differences, those observed at the higher end also raises certain questions. In almost all the cases where 59FMRs are above 1,000, two trends can be noticed; the 04FMRs are also very high and, more importantly, the drop from 04FMR to 59FMR is insignificant and even negative. This would indicate that the pattern of excess male mortality persists beyond infancy. While this may indicate an absence of discrimination against the girl children beyond the age of one year, there could be other more worrying possibilities. It could also mean higher health risks and poor health infrastructure resulting in unusually high male infant deaths. Continuation of the excess male child mortality beyond infancy may not be an indicator of the girl children faring well but of the male children faring badly. The subsequent absence of discrimination against the girl child may also be indicative of the poverty in the region, i e, the material wherewithals for such discrimination may themselves be absent. Both these possibilities should cause concern. It is not a mere coincidence that the districts with 59FMRs above 1,000 are by and large the poorer and backward districts. This point needs further investigation.

IV

We saw above that the sex ratio patterns, especially for the 59FMRs, vary considerably within the boundaries of a state. On the other hand, they show remarkable contiguity across certain groups of districts. Some of these clusters have been noted for discernible ecological or geophysical boundaries.[21]

The 1981 population census has demarcated different geophysical regions and subregions across the country [Government of India 1988; 1981 Census Atlas 192-28]. 1961 Census had laid considerable emphasis on such a classification and had initiated a number of studies related to it [Bose 1994]. There have also been other classifications of regions, apart from the one done by the census. A comprehensive compilation of these has been done by Bose (1994). These regions considerably overlap. While regional studies have not been a new phenomenon in India, their application in the field of demography, at least sex ratio analysis, has not been very frequent.[22]

We use the census classification here to identify 19 different contiguous regions within which the 59FMRs display homogeneity (Figure 4). We then examine the significance of such a classification in terms of analysis and policy implication. A list of these regions and corresponding census regions and subregions is given in Appendix 1. Departure from the census scheme, when done, is indicated separately. Table 7 gives the mean of the 04FMRs and 59FMRs values of the districts in these regions.

The first region consists of the state of Himachal Pradesh, Jammu and Kashmir and the hilly region of UP, representing the 'south' within the north. Mean 59FMR for the 32 out of 34 districts in this region is 961 (barring the districts of L and S and Kinnaur which merit separate scrutiny for their low FMRs). FMRs for the scheduled castes are comparable (mean 957). This region, largely above 300 metres from the sea level, marks an important ecological boundary between the northern mountains and the plains in northern India.

Adjoining this region are the plains of Punjab and Haryana marked by highly masculine sex ratios; the mean 59FMR being 887 for the non-ST/SC population and 842 for the scheduled caste population. There is no tribal population in this belt.

But region 3 is the more alarming region, the 'pit'. It comprises of the upper Ganga plain of western UP, the three districts of Alwar, Bharatpur and Sawai Madhopur of Rajasthan, the ravines of Chambal in MP and the Zhansi uplands of UP. These 32 districts have a mean 59FMR of 850 for the non-ST/SC population and 797 for the scheduled caste population.

Low FMRs in these two regions, given that these are relatively prosperous regions of India, should be a matter of concern in both policy and academic realm. This also warrants a special coverage of at least some of the districts in this region during the 2001 Census to set at rest some of the optimistic speculation that underenumeration of females may be the cause of low FMRs in India.

The 23 districts of the middle Ganga plain represent the eastern side of the sloping region around the 'pit' with mean 59FMR for the non-ST/SC group being 892 and those for the SC population being 883. The

FMRs continue to look up along the lower Ganga plain of north and south Bihar (region 5 with mean 59FMR for the 22 districts being 920 for non-ST/SC and 908 for the SC population). In fact Purnia and Katihar districts of Bihar show a closer pattern to the lower Gangetic plain districts of West Bengal and have been grouped with these as such. These districts have high and comparable 59FMRs for all the three groups and a sizeable presence of tribal population.

The southern Bihar hills and plateaus mark an ecological transition from plains to hills and also mark one end of the north-south divide. These seven districts with sizeable tribal population have high 59FMRs for the tribals and others and relatively lower 59FMRs (mean 956) for the SC population.

The semi arid plains of Rajasthan and Gujarat, the Kachchh and Kathiawar peninsula and some areas of semi arid Rajasthan, form a block of 34 districts. These adjoin the low FMR regions 2 and 3 on one side and the central belt dividing the north and the south on the other. The 59FMRs for the non-ST/SC population are marginally better (mean of 920) but continues to be low for the SC population (mean of 886). The 59FMRs for the tribal population in 21 of its districts are low by the standards of tribal population (mean of 937). As a matter of fact there is a low FMR track starting from Ajmer in Rajasthan descending down through Pali and Sirohi districts to the Mehasana, Ahmedabad, Bhavnagar route in Gujarat. This track is flanked by relatively higher FMR regions on its western side and regions of high FMRs on its south-eastern side. But we have not separated this region on the basis of FMRs as this track cuts across different geophysical regions.

The districts of Udaipur, Chittaurgard, Dungarpur, Banswara and Bhilwara in the relatively difficult terrain of the Aravali range of Rajasthan form a contiguous block with districts of Malwa plateau in MP extending to the three districts of Narmada Valley, viz, Jabalpur, Narsimhpur and Hoshangabad through West Nimar in the Satpura hills. It has high FMRs for the non-ST/SC and the tribal population but low FMRs still for the scheduled castes.

The other remaining region north of Narmada covers the northern uplands of MP, the Sagar and Bhopal plateau and through East Nimar, descends into the Khandesh region of Maharashtra and the Nasik Basin. It has mean 59FMR values of 925 for the non-ST/SC, 886 for the SC, and 955 for the tribal population.

The transition to high FMR zones begins with the central and eastern Satpura hill range of MP, the Baghelkhand plateau, the Chhattisgarh region Dandakaranya and Orissa highlands. This block of 23 districts also lies on the central tribal belt and joins up with the south Bihar hills and plateau region. The mean 59FMRs here are 1,000 or above for all three social groups. South of the dividing belt, we have the west coast region spreading from Valsad in Gujarat (Dang included), to Kerala through Maharashtra Konkan, Goa and Karnataka Konkan. It has high FMRs for all three groups.

Table 3.1: Comparison of FMRs in the Age-Groups 0-9, 0-4, and 5-9

Variable	Mean	CI Lower	CI Upper	Per Cent CI	Remarks
					355 districts
All04FMR	976	973	980	95	
All09FMR	958	954	962	95	Overall population
All59FMR	942	936	948	95	
Oth04FMR	974	970	978	95	Non ST/SC population
Oth09FMR	959	954	963	95	
Oth59FMR	946	940	952	95	
Districts with percentage of scheduled caste population, SCPCT >1 per cent					339 districts
SC04FMR	978	973	982	95	
SC09FMR	949	943	955	95	
SC59FMR	925	917	932	95	
Districts with percentage of scheduled caste population, SCPCT > 20 per cent					94 districts
SC04FMR	962	952	972	95	
SC09FMR	923	911	936	95	
SC59FMR	890	874	906	95	
Districts with percentage of tribal population STPCT > 1 per cent					189 districts
ST04FMR	1008	1003	1014	95	
SC09FMR	988	983	993	95	
SC59FMR	970	964	976	95	
Districts with percentage of tribal population STPCT > 20 per cent					50 districts
ST04FMR	1018	1011	1024	90	
SC09FMR	1002	994	1009	90	
SC59FMR	988	978	998	90	

Table 3.2: Analysis of FMRs in Age-Group 5-9 Years

Variable	Mean	CI Lower	CI Upper	Per Cent CI	Remarks
					355 districts
All59FMR	942	936	948	95	Total population
NT59FMR	957	952	961	95	Non-tribal population
Oth59FMR	946	940	952	95	Non-ST/SC population
Districts with percentage of scheduled caste population, SCPCT >1 per cent					339 districts
SC59FMR	925	917	933	95	Scheduled caste population
Oth59FMR	945	939	951	95	Non-ST/SC population
ST59FMR	970	964	976	95	Tribal population
Districts with percentage of scheduled caste population, SCPCT > 10 per cent					272 Districts
SC59FMR	917	908	926	95	
Oth59FMR	939	932	946	95	
ST59FMR	966	958	974	95	
Districts with percentage of scheduled caste population, SCPCT > 20 per cent					94 districts
SC59FMR	890	876	904	90	
Oth59FMR	915	906	924	90	
ST59FMR	946	928	963	90	
Districts with percentage of tribal population STPCT > 1 per cent					189 districts
ST59FMR	970	964	976	95	Tribal population
Oth59FMR	969	962	976	95	
SC59FMR	951	943	960	95	
Districts with percentage of tribal population STPCT > 10 per cent					88 districts
ST59FMR	983	974	991	95	
Oth59FMR	983	971	995	95	
SC59FMR	957	947	968	95	
Districts with percentage of tribal population STPCT > 20 per cent					50 districts
ST59FMR	988	978	998	90	
Oth59FMR	989	973	1005	90	
SC59FMR	966	954	977	90	

On the inland side of this coastal belt, we have the western ghats of Maharashtra, north Karnataka plateau and the central Maidan forming one block of 13 districts and the Vidarbha, Marathwada and Mahakoshal region if Maharashtra forming another contiguous block of 13 districts with high FMRs for all three groups (mean 59FMR typically in the 975 to 990 range). 17 districts of Tamil Nadu follow similar 59FMR pattern, except that the tribal 59FMRs are low.

There are two contiguous blocks of very high 59FMR (mean 59FMR above 1,000) which need attention. One block covers 11 districts of the central south and the southern Karnataka plateau and Chittoor district of Andhra. The other block covers 10 districts of Telangana region in Andhra Pradesh. This block adjoins the Dandakaranya region and the Chandrapur, Bastar, Koraput tribal belt known for its backwardness. The eastern coastal region of Andhra including the district of Ganjam in Orissa also has uniformly high FMRs for the three groups.

A group of five districts in Rayalseema region of Andhra stands out for its low FMRs by southern standards (mean 59FMRs of 961 for non-ST/SC, 936 for the SC, and 931 for the tribal population). This covers the districts of Prakasam, Nellore, Cudappah, Anantpur and Kurnool.

We now examine, through analysis of variance if these 19 regions provide a more homogeneous grouping compared to the 20 states involved. The within group variance would be significantly less if a given grouping is more homogeneous. The F-ratios would as a result be higher. Table 6 indicates the within group variance and the total variance for both 04FMRs and the 59FMRs by region and state for the three social groups separately. Corresponding F-ratios are also indicated.

The regions provide much more homogeneous grouping than the states do for the 59FMRs for the general and the scheduled caste population. In the case of grouping by states, the within group variance accounts for nearly half of the total variance whereas if we group by regions it reduces to less than one-fourth of the total variance. The corresponding jump in the F-ratios is also significant. (It is possible to further 'fine tune' the regional grouping taking other factors into account and improve the F-ratios further. Such an exercise of cluster formation with minimum internal variance is not within the scope of present paper. We only intended to demonstrate that these regions, comparable in number to the number of states involved, achieve substantial reduction in the variance within the groups.)

While the grouping by regions appears much appropriate for the spatial analysis for the not tribal population segments, such is not the case with the tribal population. A study of the regionalisation of the tribal sex ratios, however, is outside the scope of this paper.

Such change is also not significant for the 0-4 age group FMRs (Table 6). Although regions provide a more homogeneous grouping, the improvement in F-values is small and not as sharp as in the case of 5-9FMRs. This should not be surprising in view of the random spatial spread of the 04FMRs notwithstanding regions with low 04FMRs. It will be instructive to compare the situation with the one revealed by 1991 Census data.

V

What do the patterns above signify? Four pertinent points emerge First, the sex ratio analysis has to move away from the state level and take into account the regional diversities. Even at the regional or the district level the differences in the patterns for the tribal, the scheduled caste and the rest of the population have to be taken into consideration For these analyses, the JSRs or the JFMRs will be more appropriate variables compared to the all age group sex ratios. But even this has to be disaggregated into the 0-4 and 5-9 age group FMRs because of the different mortality patterns in the 0-1 and 1-9 age group.

The regionalisation of the 59FMRs has important implications for the analysis of the correlates of sex ratio variations. It has of late been recognised that both cultural and economic factors affect female survival together [Kishore 1993; Murthy 1995]. It is quite likely that the regional patterns will throw a better light on the role of cultural variables. Even the economic factors like female labour participation would show considerable variation among different regions and social groups. The ravines of Madhya Pradesh, for example, will have a very different pattern of female labour participation than, say, Chhattisgarh region.

The reversal of mortality patterns within the 0-9 age group and differences in the 0-4 and 5-9 age group FMR patterns among the three social groups raise two important methodological points. One relates to the use of under-5 mortality as a composite variable. The other relates to the use of the population percentage of the SC or the tribal population.

Table 3 3 Analysis of FMRs in Age-Group 0-4 Years

Variable	Mean	CI Lower	CI Upper	Per Cent CI	Remarks.
All04FMR	976	973	980	95	Total population
NT04FMR	975	971	978	95	Non-tribal population
Oth04FMR	974	970	978	95	Non-ST/SC population
Districts with percentage of scheduled caste population, SCPCT >1 per cent					339 districts
SC04FMR	978	973	982	95	Scheduled caste population
Oth04FMR	974	970	978	95	Non-ST/SC population
ST04FMR	1008	1003	1014	95	Tribal population (193 districts)
Districts with percentgage of schedule caste population, SCPCT > 10 per cent					272 districts
SC04FMR	978	972	984	95	
Oth04FMR	973	969	977	95	
ST04FMR	1009	1002	1015	95	143 districts
SC04FMR	988	982	995	95	143 districts
Oth04FMR	983	978	98	95	143 districts
Districts with percentage of scheduled caste population, SCPCT > 20 per cent					94 districts
SC04FMR	962	952	972	95	
Oth04FMR	964	957	972	95	
ST04FMR	1004	986	1022	95	28 districts
SC04FMR	973	955	991	95	28 districts
Oth04FMR	981	968	994	95	28 districts
Districts with percentage of tribal population STPCT > 1 per cent					189 districts
ST04FMR	1009	1004	1014	95	Tribal population
Oth04FMR	983	978	988	95	
SC04FMR	985	979	991	95	
Districts with percentage of tribal population STPCT > 10 per cent					88 districts
ST04FMR	1013	1007	1019	95	
Oth04FMR	993	984	1002	95	
SC04FMR	987	977	997	95	
Districts with percentage of tribal population STPCT > 20 per cent					50 districts
ST04FMR	1018	1009	1026	95	
Oth04FMR	993	979	1007	95	
SC04FMR	983	969	997	95	

The use of under-5 mortality as a composite variable may mask some of the differences in mortality patterns in the 0-1 and 1-5 age group. Three factors, infant mortality in absolute terms, excess male infant mortality and the excess female mortality beyond the age of 1 could combine differently to give an overall figure for the under-5 mortality. Further, these three factors may themselves differ for different social segments within a given region resulting in differences in the FMRs. And why just FMRs, even some of the correlates of the FMRs, economic as well as cultural, would differ among these three groups, within the same region and their effects may not linearly add up. We have already seen that FMR ranges reveal some of the differences among these groups more sharply than population percentages for the SC or the ST population. It will be prudent, therefore, to analyse the patterns separately for these three groups rather than linearly aggregating these and using the population percentage as a surrogate for effects which may be complex. Use of 0-4 and 5-9 age group sex ratio may provide better insights into the survival patterns by sex.

An important aspect for investigation in this context is the spread of the low FMR pattern Whether the low 59FMR band has spread farther between, say, 1961 and 1991 will have important policy implications. Similarly, the trends in low 04FMRs will help identify regions where the survival conditions for the girl children are becoming more adverse These trends may be of particular concern for specific social groups in specific regions, e g, scheduled castes in region 3 above or the tribal population in Rajasthan. The five-year age group data from the 1991 Census and the regional level NFHS data will throw valuable light on these trends.

It is also clear that the design of women and child welfare policies has to take note of these differences. The nature of interventions for the scheduled caste population in western UP will be altogether different from those for tribal population in, say, southern Orissa. Such plurality will have to be built into the design stage. The low FMRs in 5-9 age group in the northern region put a big question mark on the effectiveness of the present interventions. Not only their nature needs a change, some of these low FMR districts may even have to be denied other developmental assistance until they achieve an acceptable level of FMRs. Until then a bulk of their rural development fund may be restricted to child welfare programmes. Likewise, the poorer districts with very high 04FMRs and equally high 59FMRs may require serious scrutiny in terms of health environment and the availability and level of health infrastructure. At the same time, districts which have fared well in terms of both 04FMRs and 59FMRs

Table 4: Comparison of FMR Variance of Age-Groups 0-4 and 5-9

Variable	Mean	Variable	Std Dvn	Remarks
				355 districts
All04FMR	976	1046	32	
All59FMR	942	3076	56	Overall population
Oth04FMR	974	1330	37	Non ST/SC population
Oth59FMR	946	3297	57	
Districts with percentage of scheduled caste population, SCPCT > 1 per cent				339 districts
SC04FMR	978	2092	46	
SC59FMR	925	5286	73	
Districts with percentage of scheduled caste population, SCPCT > 20 per cent				94 districts
SC04FMR	962	2524	50	
SC59FMR	890	6301	79	
Districts with percentage of tribal population STPCT > 1 per cent				189 districts
ST04FMR	1008	1115	33	
ST59FMR	970	1896	44	
Districts with percentage of tribal population STPCT > 20 per cent				50 districts
ST04FMR	1018	855	29	
ST59FMR	988	1620	40	

Table 5: Analysis of 04FMRs and 59FMRs by Different FMR Ranges

Variable	04FMR				59FMR				No of Districts
	Mean	CI Lower	CI Upper	Per Cent CI	Mean	CI Lower	CI Upper	Per Cent CI	
					SC59FMR < 800				
SC	901	885	917	95	763	752	774	95	24
Others	940	929	950	95	848	836	859	95	24
					SC59FMR < 900				
SC	942	934	949	95	837	828	846	95	107
Others	951	945	957	95	887	880	895	95	107
ST	993	975	1012	95	925	906	945	95	30
					900 < SC59FMR < 950				
SC	984	976	993	95	923	920	926	95	79
Others	981	973	989	95	941	934	949	95	79
ST	1012	1002	1022	95	962	953	971	95	43
					SC59FMR > 950				
SC	999	993	1005	95	988	984	992	95	153
Others	987	982	991	95	988	981	994	95	153
ST	1011	1005	1017	95	983	977	990	95	119
					SC59FMR > 1000				
SC	1013	1001	1026	95	1018	1012	1024	95	43
Others	991	984	997	95	1009	998	1019	95	43
ST	1016	1006	1026	95	1003	990	1014	95	35
STPCT > 1 per cent					ST59FMR < 900				
ST	966	944	987	95	866	846	886	90	11
SC	955	935	974	95	846	813	879	90	11
Others	969	951	987	95	908	886	931	90	11
					ST59FMR < 950				
ST	990	980	100	95	919	912	927	90	56
SC	975	964	987	95	911	894	927	90	56
Others	975	968	983	95	944	934	955	90	56
					950 < ST59FMR < 1000				
ST	1015	1009	1021	95	976	973	979	95	88
SC	986	978	994	95	960	952	968	95	88
Others	988	979	997	95	973	962	983	95	88
					ST59FMR > 1000				
ST	1020	1012	1027	95	1021	1016	1027	95	45
SC	1001	988	1014	95	990	978	1002	95	45
Others	990	980	999	95	1002	989	1014	95	45
					Oth59FMR < 850				
Others	931	919	942	95	827	821	833	90	21
SC	938	907	969	95	793	768	818	90	21
					Oth59FMR > 1000				
Others	1007	996	1017	95	1029	1019	1038	95	52
SC	1001	993	1009	95	995	988	1002	95	52
ST	1017	1009	1026	95	996	986	1006	95	46

may have to be given suitable incentives. Such provisions can be built into the planning process itself.

Appendix – I

REGIONS WITH HOMOGENEOUS SEX RATIO PATTERNS

Region 1: All districts of Himachal Pradesh, Jammu and Kashmir and hilly districts of UP, viz, Chamoli, Pithoragarh, Uttarkashi, Dehradun, Garhwal, Tehri Garhwal, Almora and Nainital. These form part of the Northern Himalayas.

Region 2: Part of the 'Great Plains'; All districts of Punjab and Haryana. (Although couple of districts in Haryana could go in the region 3)

Region 3: Districts of western UP in the upper Ganga plain; Saharanpur, Muzaffarnagar, Bijnor, Meerut, Ghaziabad, Bulandshahar, Moradabad, Rampur, Budaun, Bareilly, Pilibhit, Shahjahanpur, Aligarh, Mathura, Agra, Etah, Mainpuri, Farrukhabad, Etawah, Jalaun, Jhansi, Lalitpur, Hamirpur, Banda and Kheri, Bharatpur and Sawai Madhopur which constitute the subregion of Banas Chambal basin and Alwar (Alwar defies the subregional classification; it has been included here although it belongs to the subregion of Aravalli range and associated uplands of Semi-arid Rajasthan).

Chambal ravines of Bundelkhand in MP; the districts of Bhind, Morena, Gwalior and Datia (the 1981 classification includes Guna and Shivpuri. We have used the 1961 classification quoted in Bose (1994:44-48). These classify Guna and Shivpuri under northern Malwa uplands.

Region 4: Middle Ganga plain; Remaining districts of UP

Region 5: Districts of Bihar in lower Ganga plain; All districts of Bihar, except Katihar and Purnia clubbed with region 7 and the districts in region 6.

Region 6: South Bihar Hills and plateau; Districts of Palamau, Ranchi, Hazaribagh, Singhbhum, Dhanbad, Santhal Parganas.

Region 7: Katihar and Purnia of Bihar, all districts of West Bengal and Cuttack, Puri and Balasore districts of Orissa. (Although Purulia could be clubbed with region 6, and the hilly districts could form a separate group.)

Region 8: Semiarid Rajasthan and plains of Gujrat; All districts of Rajasthan except those in region 10 (hilly region) and all districts of Gujarat except Valsad and Dang clubbed in region 11 covering districts on west coast.

Region 10: Hilly districts of Rajasthan [Bose, 1994:45], viz, Bhilwara, Udaipur, Chittaurgarh, Dungarpur, Banswara and Jhalawar.

Malwa plateau and Narmada valley [Bose, 1994:46] in MP; the districts of Mandsaur, Ratlam, Ujjain, Shajapur, Dewas, Jhabua, Dhar, Indore, West Nimar, Rajgarh, Hoshangabad, Jabalpur, Narsimhapur

(West and East Nimar show a sharp divide which may be worth analysing at the block level).

Region 11: Western coastal districts; Starting from districts of Valsad and Dang at its northern end, going down through Thane, Raigarh and Ratnagiri in Maharashtra, Goa, Uttar and Dakshin Kannada in Karnataka to all districts of Kerala.

Region 12: North Malwa uplands i.e. Guna and Shivpuri; north central MP, i e, Chhatrapur, Tikamgarh, Vindhya range and Rewa plateau Vidisha, Raisen, Sagar, Damoh, Bhopal, Panna, Rewa, Satna, East Nimar and; Jalgaon, Dhule and Nasik districts of Maharashtra.(This grouping draws upon the 1961 regions Bose (1994).)

Region 13: Remaining districts of MP covering Satpuras, Bagherkhand, Chhattisgarh, Bastar and all districts of Orissa except three coastal districts (region 7) and Ganjam clubbed with region 19.

Region 14: Western Ghats in Maharashtra; Ahmednagar, Pune, Satara, Sangli, Solapur and Kolhapur; Inland Karnataka, ie, Belgaum and Dharwar; North Maidan, ie, Bidar, Gulbarga and Bijapur and Central Maidan, ie, Bellary and Raichur [Bose 1994: 47; 1961 Census classification]

Region 15: Marathwada, Vidarbha and Mahakosal regions of Maharashtra covering rest of its districts

Region 16: Rest of the districts of Karnataka covering South Maidan and Malnad and Chittoor of Andhra which shows different characteristics from Rayalseema where it is included in the census classification.

Region 17: Eastern Coastal region I; all districts of Tamil Nadu and Pondichery

Region 18: Telangana region of Andhra; Mahboobnagar, Rangareddy, Hyderabad, Medak, Nizamabad, Adilabad, Karimnagar, Warangal, Khammam and Nalgonda

TABLE 6: ANALYSIS OF FMRs BY REGIONS AND BY STATES

	Region (DF = 18)				State (DF + 19)			
	Sum of Squares (in 000s)				Sum of Squares (in 000s)			
Variable	Within	Between	Total	F-Ratio	Within	Between	Total	F-Ratio
Oth59FMR	245	835	1080	62.48	526	554	1080	20.53
SC59FMR	369	1422	1790	67 73	811	980	1790	22.53
ST59FMR	187	166	326	8.9	219	134	326	8.99
Oth04FMR	242	186	428	14 06	297	131	428	8.58
SC04FMR	422	284	705	11.8	528	177	705	6.26
ST04FMR	66	179	245	3.69	205	41	245	2.92

(F Probability in all the cases is 0.0000)

TABLE 7: MEAN FMR VALUES IN DIFFERENT GEOPHYSICAL REGIONS

	04FMRs			59FMRs		
Region No	ST	SC	Others	ST	SC	Others
1	1015	988	972	977	957	956
2	–	921	924	–	842	887
3	972	932	947	854	792	850
4	1028	992	979	996	882	892
5	1056	1012	993	949	908	920
6	1033	989	1022	989	956	972
7	1003	996	997	975	981	980
8	988	958	958	937	886	920
10	1009	988	1010	961	934	980
11	1001	974	975	964	975	979
12	1008	948	962	955	886	925
13	1030	1019	995	1017	1000	1019
14	989	978	952	977	982	972
15	998	980	975	992	983	982
16	1008	1004	984	1001	1016	1009
17	1004	991	971	945	981	973
18	1020	1013	1007	968	998	1014
19	1027	1001	995	979	971	993
20	987	996	980	931	937	961

Note: Mean values here are mean of the FMR value of the districts in the region and NOT the mean FMR values for the region.

Region 19: East coastal Andhra and south Orissa; Ganjam district of Orissa and rest of the districts of Andhra except those in region 20.

Region 20: Anantpur, Cudappah and Kurnool of Rayalseema and the two southern coastal districts of Prakasam and Nellore classified as a separate subregion.

Remarks: (1) Delhi, Chandigarh and Bombay not included in the regional analysis. (2) The central zone which represents the north-south transition is difficult to classify and indicates tracks which further cut across these regions. These could be analysed at a more detailed level with smaller regions.

Notes

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1 We use the term FMR defined as the number of females per thousand male population to avoid confusion in use of the term sex ratios. In India the term sex ratios is traditionally used to mean number of women per thousand male population, exactly opposite to the international convention.

2 While this was noted in the earlier literature [Bardhan 1974; Visaria 1971], this pattern was explicitly brought into focus by Sopher (1980), Miller (1981) and later by Dyson and Moore (1983) among others

3 Dyson and Moore have also recognised the difficulty in placing the eastern region into the northern or southern stereotype. Caldwells (1990) in fact consider this 'dichotomy' as exaggerated. In a recent paper, the author has attempted to extend the two-fold; north-south, classification into a five-fold classification using the sex ratio data for different language groups in India [Agnihotri Forthcoming].

4 There have been occasional references to the generally high FMRs among the tribals. Dange (1972:282) has raised this point explicitly in the context of Madhya Pradesh but this has not been pursued further. Miller (1981:74) has in fact considered the classification of tribals, scheduled castes and the rest as too gross. It is only recently, [Agnihotri 1995; and Agnihotri Forthcoming] that the differences between the sex ratio patterns among these three social groups has been examined systematically on a all-India basis leading to the present analysis. The possibility of significant differences between the scheduled caste and the non-SC/ST population has also not been seriously explored so far.

5 The trend normally is to use the state level data. Valuable contributions have been made by Sopher (1980), Libby (1980), Miller (1981) and more recently Kishore (1993) and Murthy, Guio and Dreze (1995) by using district level data, yet most of the analysis continues to draw upon state level figures not corrected for migration.

6 Vannemann and Barnes (1992) provide extremely useful data on various aspects at district level including the population Census data from 1961 to 1981. They too have not included the detailed data on the tribal and SC population in some respects. For these the special tables from 1981 Census have been used. This database tends to aggregate some of the data at the state level for the small states, particularly in the north-east.

7 Visaria (1971:26) has calculated the effect of random errors on the sex ratios for different sample sizes of live births. He indicates that one requires a surprisingly high number of births, 10,000 and above, to get the sex ratios at birth within a narrow confidence range.

8 Present analysis does not cover the tribal districts in the north-east. This may appear unusual, but in our opinion the tribal in the north-east and in central India belt differ considerably, a point intended to be dealt with elsewhere. Inclusion of these districts could have resulted in aggregation of non-comparable groups.

9 Oldenberg (1992:2658) has used this term although not on the basis of the juvenile sex ratios. We will later see that this is an apt description for a group of 24 districts with very low 59FMRs. This region resembles, to use Oldenberg's graphical term, a 'pit' with sloping sides when we look at the spatial distribution of the FMRs across districts.

10 Desai (1969:Ch 7 and pp 206-207); Srivastava (1979:58-59 and 71) for details based on 1961 and 1971 Census data.

11 See, for example, Kundu and Sahu (1991), who opine that "at the state or district level, migration, is the single most important factor explaining the temporal and cross-sectional variations in sex ratio". In our opinion, once the relative survival of the females is recognised as the central issue of analysis, the debate on migration becomes unnecessary if the sex ratios for the juvenile population are used.

12 We assume here that the sex ratio at birth is nearly constant across different regions; 104 to 109 male children per thousand female children. We also assume that enumeration errors are not significant enough. We do not rule out enumeration errors, but do not share the view that the low sex ratios can be explained away by sex selective underenumeration of female children Visaria (1971) has adequately dealt with this issue but this view persists nevertheless. Also see Kishore (1993) and Murthy (1995).

13 (a) Government of India (1991).
(b) Deaths in 0-9 age group account for about one-fourth of the total deaths and little less than half of the deaths below the age of 60 (Government of India 1991).

14 See Hariss (1987), Miller (1981, 1989), Basu (1989), Caldwells (1990), Mukherjee (1986), Bhatia (1983) (quoted in Caldwells (1990)). An elaborate discussion of this 'neglect' has been done in Miller (1981). There is some debate about the relative importance of different factors in survival, e g, nutrition versus health care, etc. We do not intend going into it in this paper except observing that parity in one aspect does not necessarily mean parity in other aspects and the combined impact of different factors in terms of mortality will always be guided by the factor in which the gap is larger (and critical). There may be equality in consumption of calories, for example, but a critical gap in access to health care between two groups. The mortality differences will be driven by the latter and if the situation is reverse, then by the gap in calorie consumption.

15 See Kielmann (1983:185) quoted in Caldwells (1990:17)

16 This will not be the case where excess female child mortality is very sharp in the toddler (1-2) age group or has made inroads in the 0-1 age group or even prior to it through infanticide or sex selective abortions. Also see note 17.

17 This will particularly be the case in districts where excess female child mortality has become significant between the age of one and two years itself or even earlier as some recent data from the National Family Health Survey (NFHS, 1995: Table 8.5) shows. Caldwells (1990) have also discussed such possibility. Government of India (1988b) in fact, lists out 142 districts, (20 in Bihar, 9 in Gujarat, 12 in Haryana, 9 in Punjab, 14 each in Rajasthan and MP, 46 in UP being main contributors) where the q2 values for the girl children are high compared to those for the boys.

18 These districts are: Alwar, Bharatpur, Sawai Madhopur, Jhunjhunu, Sikar, Jaipur, Tonk, Bundi, Jalor and Barmer.

19 See Bharadwaj (19??: Ch II and V), Sopher (1980: Ch 10), Spate (1971, Ch 6) and Schwartzberg (1992· IIIA and related maps) on the point of cultural circulation between the north and the south across Narmada-Chhotanagpur belt.

20 It will be very interesting to see how the underenumeration optimists*, will like to explain away this pattern except by invoking an underenumeration in the 5-9 age group and its absence in the 0-4 age group. The sharp decline in the FMRs from 0-4 age group to 5-9 age group among the tribal is even more hard to explain away by invoking underenumeration. The tribal are far less likely to practice underreporting of the girl children given their social structure. (* Those who expect the relative underenumeration of the girl children to be the main cause of the low FMRs.)

21 Libby (1980:94) has noted, for example, the ecological distinction between eastern and western UP. Bardhan (1974) has also talked about the wheat and the rice divide in the sex ratios, arguing that the low female participation in wheat regions *vis-a-vis* high participation in rice regions affects the sex ratio patterns in these regions.

22 Even recent studies like Raju (1991) who has dealt with 'Gender and Deprivation – A Theme Revisited with Geographical Perspective' or Agarwal (1994: Ch 8, 316-419) while 'tracing cross-cultural diversities' in respect of women's position have confined their attention at state level. Murthy, Guio and Dreze (1995) are perhaps the first to take up regional classification systematically in the gender context.

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Strategies for a Viable Transition

Lessons from the Political Economy of Renewal

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The poor economic performance and the resulting political instability of the post-socialist countries have stemmed from copying the wrong capitalist model – voluntarily or otherwise. Until they learn from both their own past and the experience of successful late-industrialisers and piece together their own sensible policies, specifically geared to their current status, their efforts to restructure and to make a transition to a market economy will continue to sputter.

This report is a collaborative effort which represents an agreed upon core of analysis that differs sharply and systematically from both the received wisdom of the so-called 'Washington Consensus' and the economic policies of the Russian government in the period from 1990 to 1995. Our goal is to provide a point of departure for an innovative economic policy that can both lift the Russian economy out of its current depressed state and at the same time be socially and politically viable. Only a drastically different approach has any hope of allowing democratically and economically successful renewal to begin from among the ruins created by past policies.

ECONOMIC policy analysis and prescription for Russia during the transition been dominated by an Anglo-American folk-tale of development. This belief in the self-organising character of markets is partly naive, but is more fundamentally ideologically driven – it is a political tactic which ignores or supersedes economic logic and economic history, including Russian economic history.

While shock therapy is now discredited, the slower application of such 'shock methods' is little different – it is still an almost entirely destructive process which fails to set the foundations for positive growth. The result has been an awful disaster for Russia which does not lead to the creation of conditions which are able to support either short-run or long-run viable growth.

Successful renewal is still possible for Russia on the basis of very different economic policies. Fortunately the economic and political aspects of such a new direction reinforce each other, unlike the current chaos. It is vital to redirect economic policy in the light of the central fact of modern experience – that there is no successful economic transition without an active and coherent 'developmental' state. These lessons have been avoided by Russian resistance to learning from recent Asian experience, but they also ignore the fact that west European development after 1830 provided the pattern that Japan and other countries followed in their successful transitions. The appeal of speed and efficiency made in the name of reform-from-above-by-decree is by now an evident self-parody. If rapid, it is progress on the road to nowhere.

The crucial political requirement for economic success is the formulation of a set of transition policies that have broad public support. Unless such public assent is achieved and arrangements sensitive to public opinion are built into the process from the beginning no 'reforms' will be irreversible. Russia must make fundamentally 'constitutional' decisions that will set the boundaries for all future economic life and broadly shape all aspects of social and personal life.

Economic-political requirements for a successful transition will be much easier to achieve if policies are adopted which are more consistent with the existing social and personal values of the Russian population. A policy which reasserts the responsibility of the state to play a major guiding role in economic development and tolerates local retention of many elements of the old system of social protection would find wide popular support. It would be the basis for creation of a diverse, mixed system. As such it would be more like the modern mixed economies of France, Italy or Japan than the textbook models of the neo-liberal fantasy world.

Neo-Liberal Ideology, Shock Therapy and Shock Transition

Russia has been inhibited from mobilising its energies for the transition by a dogged determination to continue a fixed set of economic policies. These discredited policies pay little attention to the shape, form, and substance of the existing economic institutions. They also ignore the realities of the constructive role of government intervention in the postwar rebuilding of Germany, Italy, Austria and Japan; the economic transformation of South Korea and Taiwan; and the recent restructuring of China and Vietnam.

The transition policies that have been adopted in the former Soviet Union and eastern Europe have varied across countries, but they have been generally unsuited both to the already heavily industrialised status of the region and to the oligopolistic market structures of the global economy of the 1990s. In particular, 'shock therapy' has been excessively inflationary, has promoted production stagnation or collapse, and has had the further effect of de-industrialising large segments of the region while destroying the honest middle-class which is the backbone of the political and economic system.

These economic transition policies have been in part involuntary. They are partly a consequence of the conditions attached to the loans of the World Bank and the International Monetary Fund. In the 1980s these two institutions promoted an extreme form of neo-liberalism (the so-called 'Washington Consensus'), enforced by conditions imposed on the assistance they offered around the globe. The neo-liberalism that set the stage for the current primitive capitalist policies in the post-socialist countries was not grounded in new insights or fresh empirical evidence about economic transition.

Most of the theoretical work done in economics in these years weakened rather than strengthened the intellectual weight of the simple free-market paradigm, including systematic efforts to take account of the implications of imperfect information, the rise of the 'New Growth Economics' and the 'New Trade Theories'. Yet, for political

reasons, a virulent form of neo-liberalism spread from Washington throughout the world, virtually without resistance after the collapse of the opposite extreme, central planning.

Despite dire results, the persistent reliance on the logic of shock therapy/shock transition in Russia and eastern Europe has been partly voluntary, reflecting the opinions of part of the intelligentsia. It became an article of faith for many intellectuals that rapid, radical economic reform was imperative to avoid a reversal of course at the next elections. Economists in the former Soviet Union and eastern Europe were pressured to commit themselves to radical reform or gain a reputation for being 'crypto-Stalinists'.

The application of 'market Stalinist' policies produced a disaster in which the pain does not lead to the creation of conditions able to support either short-run or long-run viable growth patterns. Many of the policies pursued have a 'path dependent' aspect where outcomes cannot be undone or initial conditions cannot be restored once certain links are broken. The political-tactical desire to destroy something led to the immediate destruction of much more and greatly limited future options.

In practice, extremist economic policies have bred extremist political responses, thereby undermining the entire reform effort. Even radical reforms have proved reversible. Instead of openly and systematically restructuring only the best state-owned enterprises (SOEs), governments everywhere have been forced to continue subsidising these enterprises in order to prevent their economic collapse. Instead of nurturing financial systems that successfully 'intermediate' savings and investment flows among households, the public sector, and productive enterprises, the authorities have sanctioned unregulated financial speculation and pyramid schemes such as MMM whose crash destroyed the wealth of millions of shareholders and contributed nothing to capital formation.

Initial Conditions in Russia Did Not Require Failure

Economic transition policies have failed because of this mixture of fear and ignorance. Fear of a return to the old system has led to emphasis on speed for purely political reasons. In order to not allow time for the opposition to realise what is happening and organise resistance, public discussion of key rules has been avoided. This tactical emphasis on speed has led to incompetent policies and caused massive damage. In addition, ignorance of the rules of behaviour of successful government in modern market-oriented states has supported a simple-minded adoption of neo-liberal ideology. This ideological formulation is entirely lacking in substance as a guide to real policy choices under real Russian conditions. We hope to encourage recognition of the necessity of restructuring the state itself in the former Socialist countries in order to introduce the market institutions that are essential for long-term capital accumulation and employment growth. Such measures are the requirements for sensible economic transition policies.

During the period of the command economy the institutions necessary for effective and democratic decision-making were never successfully put in place. The system was often inefficient, dictatorial, and ultimately seemed to be incapable of achieving sustained growth. Nevertheless, this system was not an unmitigated failure, leaving some grounds for real optimism. High levels of education and human skill were achieved – Russia has a highly educated population, especially well trained in mathematics and science. Basic human needs were satisfied and essential physical infrastructure was constructed. Certain state-owned enterprises – even civilian ones – had accumulated technical know-how and skills roughly comparable to those of capitalist firms operating at the world technological frontier. Russia also has the remnants of an exceptionally equal income distribution and huge production capacity.

These educational, income distributional and production characteristics were critical in the postwar industrialisation of the now rapidly growing east Asian economies, and they provide a promising structural foundation for the re-industrialisation of Russia and eastern Europe after 1989. Yet, the architects of transition to a market economy uniformly regarded the legacies of socialism as pure liabilities. For ideological reasons, they rejected the entire socialist inheritance. In so doing their approach differed from that of Italy, Germany, and Japan after second world war, when those nations pragmatically made use of any possible positive inheritance that could be mobilised for reconstruction.

Market Fundamentalism Is Bad Economic Policy

Russia is not alone in witnessing the destruction of its economy as the result of misguided policies. No central or eastern European country has put a new institutional system into place that can achieve a level of re-industrialisation or macro-economic growth anywhere near the economy's potential. This failure can be attributed both to the blanket rejection of any remnant of the immediate socialist past and, further, to the embrace by almost every country in the region of a simplistic capitalist experiment dating from the 18th century. This *laissez-faire* model is simply not appropriate to the task of reconstructing industrial Russia and eastern Europe under the competitive conditions of technologically advanced, contemporary capitalism.

Even the most successful east European economies have managed to establish only a system of 'pseudo-capitalism', in which, for ideological reasons, few of the institutions essential for long-term capital accumulation have been introduced. What they have tried to create is by historical standards already outdated. The problems of creating capitalism after state socialism are unique, but instead of reaching toward a new economic and political system capable of catching up with the world's richest countries, a highly mythologised interpretation of the free market paragons, Britain and the US, has served as the model. In the absence of the institutions of a normal market economy, the Russian transition has led to a criminalised economy where criminals establish new institutions which are rewarding to their masters but dysfunctional for sustained economic renewal.

No revolution is ever completely successful in coming to terms with its own past, but few cases of waste on this scale can be found. Allowing first-rate firms to go bankrupt and world-scale research and development laboratories to deteriorate is simply an unmitigated disaster. Worse yet, the choice of a capitalist model that dates back to the 18th century and that represents an extreme, primitive form of market economy has failed in five years to lay the groundwork for the transition to a modern capitalist economy.

Elsewhere in the world compelling examples can be found of countries that have succeeded or are succeeding in their economic transitions – Japan, South Korea, Taiwan and, within the post-socialist camp, increasingly China and Vietnam. These nations became capitalist in their orientation, emphasising private property and the use of the market to acquire inputs and sell outputs. But the specific capitalist model these late-industrialisers have used was, in fact, new by world standards and drew nothing of significance from the American and British model of economic organisation. They bear little resemblance to the historical relic the post-socialist countries have worshipped in the first years of transition.

The approach of the successful late-industrialisers, however, represents something distinct: it has been capitalist in orientation yet a significant departure from either textbook theory or 18th – and 19th – century Anglo-American capitalist norms. This late-industrialising model has been successful not because reforms were introduced gradually (as in China and Vietnam) rather than in a great 'shock' (reforms in Hungary were also quite gradual),

but because it represented an attempt to adapt (customise) a capitalism to suit the realities of having to catch up with technologically advanced countries in a world economy. The advanced countries espouse free competition, but they exhibit pervasive oligopolistic business practices and extensive active government involvement in shaping and directing the economy.

The poor performance and the resulting political instability of the post-socialist countries have stemmed from copying the wrong capitalist model – voluntarily or otherwise. Until they learn from both their own past and the experience of successful late-industrialisers and piece together their own sensible policies, specifically geared to their current status, their efforts to restructure and to make a transition to a market economy will continue to sputter.

An Institutional Framework Is Required before Markets Can 'Work'

A critical difference between the classic capitalism that the Russians and eastern Europeans have tried to promote and the late-industrial capitalism that the east Asians have pioneered lies in the role of institutions in shaping the form, substance, direction, and pace of economic expansion. In the east European case, the role of institutions has been minimal; resource allocation has been left almost entirely to undirected and inefficient market mechanisms. When advocates of this 'market fundamentalism' refer to 'institutions' and the necessity of 'institution building' in order to foster capitalism, they have in mind a strictly limited agenda: the definition of property rights, contract law enforcement, and the removal of impediments to private enterprise. The use of the market mechanism was sharply different in the east Asian case, serving instrumentally rather than as a matter of ideological conviction. Institutions, including an activist state, assumed a major role in allocating investment resources. Institution building in this context refers not just to the establishment of clear property rights and contract law but also to the creation of private and public organisations capable of carrying out expansionary macro-economic policies as well as investment, trade, competition and technology policies. The post-socialist countries have thus far rejected the approach taken in east Asia. The command economy was in some way a caricature of capitalism: the size of business enterprise was not simply large, it was rigidly bureaucratic; the role of the state was not just activist, it was all-determining. Out of this dismal past and out of considerable naivete about how markets truly work (as opposed to how they are supposed to work in theory), post-socialist governments have chosen a brand of capitalism strongly biased toward unregulated firms and weak states. This preference has been uncritically endorsed by many intellectuals, who fear that a strong state would stifle democracy (although history has proved that a weak state does not necessarily stimulate it) and hopeful that unregulated firms would nurture a middle class or create the incentives for economic growth.

Such a bias toward conservatism has been rigidly reinforced in eastern Europe by its bankers, the World Bank and International Monetary Fund, which had been set up after second world war to advance credits – with policy strings attached – to countries with economic problems. By the time of the transition, these organisations themselves had drastically changed. In reaction to the rise of the east Asian late-industrialisers, the western governments and economists exaggerated the virtues of free markets and, by means of the conditions that the World Bank and IMF attached to their loans, limited the policy menu open to post-socialist states.

In the post-socialist era, the eastern regions of Europe have been encouraged to specialise in low-end goods, despite equally gloomy prospects for success, returning to a place in the international economy roughly comparable to what it occupied in earlier centuries: that of a poor cousin in the division of labour with the rest of Europe.

In analysing the dire consequences of eastern Europe's choice of the wrong model, we focus on what can be learned from this costly error in order to develop a more sensible alternative for post-socialist late-comers. These post-socialist states must re-industrialise and create the economic institutions and macro-economic structure suitable for the task.

Contractionary Macro-Economic Policies

Although there have been substantial differences across countries, transitional macro-economic policies in the post-socialist lands have borne a strong family resemblance. In effect they have been a celebration of Say's Law, that supply creates its own demand and that markets automatically maintain equilibrium if wages are low enough. A pillar of transition economics, therefore, has been the reduction of real wages. One consequence of declining real wages, however, has proved to be a sharp and sustained fall in economic activity, which was more contractionary than either the transition economists anticipated or the final collapse of a command economy could explain.

With their own hypothetical model in mind, the economists who designed the global shocks and big bangs of the early 1990s did not take into account the mechanisms for output determination that emerged on the eve of the post-socialist era. Transition planners thought that production would remain at the level of potential supply, just as it had been under the repressed inflation and soft budget constraints of socialism. The dynamic changes that the reformers did not foresee hinged on the effects on aggregate demand of the massive income redistributions induced by price liberalisations and inflation. As real incomes were cut, domestic demand fell to unforeseen depths.

Shock therapy suddenly removed all price and other administrative controls in the presence of the latent excess demand that had built up under planning and queues and shortages vanished almost overnight. But the only way that the resulting surge in attempted spending could be held down to available supply was by price increases. In most countries, enterprises raised their selling prices several-fold in the wake of liberalisation. Real wages dropped almost in proportion, forcing consumer spending to collapse at the same time that exports within the formerly socialist trading bloc imploded in a chain reaction. With no stimulus from consumer demand or exports, capital formation – the driving force of the planning system – also collapsed.

An ironic achievement of the period of early shock therapy and shock transition was effective destruction of the middle class that had emerged under the planning system. A large middle class of managers, skilled workers, specialists and researchers had grown up under the planning system. This was a professional, as opposed to property-owning, middle class but it was the part of the population that was most important to the process of economic renewal. The chaos and institutional disintegration of the shock transition period has damaged the buying power, the self-respect, and health of this part of the population. It has done this without providing the stimulus that could lead to constructive redirection of the skilled core of the population.

For all the talk of creating a market economy, the irony was that with plunging real incomes there were no effective markets in which firms could sell their goods. Total domestic output consequently dropped well below potential supply. Meanwhile, workers tried to recover the purchasing power that price increases had taken away. Their attempts were frustrated by policies aimed at holding money wages in check, but they still led to nominal labour cost increases that fed through the enterprise mark-up into an ongoing price spiral. Credit crunches and high interest rates along with increases in raw materials prices aimed at getting their levels 'right' also contributed to cost-push inflation in response to higher production costs.

The resulting combination of wage/price inflation and declines in production mean that an extreme form of stagnation is almost certain to persist over time, while the complex supply side linkages which were built up over decades of planning continue to unravel. This macro-economic situation can be expected to continue to deteriorate until post-socialist policy-makers create the means (and gather the courage) to control prices and encourage production through measures affecting both aggregate demand and supply, as do all modern capitalist nations. To achieve this kind of coherent transition, planners must go against the advice of ideologically driven western bankers and governments.

Micro-Economic Policies which Destroy, Not Revitalise, the SOEs

One of the highest costs of the shock therapy and shock approach to the transition has been a failure to grasp the potential of the organisations that existed in the early stages of transition, especially a significant number of inherently viable state-owned enterprises (SOEs). Their numbers far exceeded the ranks of reasonable buyers interested in privatisation, while their responsibility for producing the lion's share of industrial output and exports outstripped the instruments and resources made available to them for restructuring. At best, futile reliance on privatisation and market forces to restructure has resulted in lost time and missed market opportunities, particularly those associated with sustaining the growth of the SOE exports that boomed in the very early transition years. At worst, doing nothing has contributed to the erosion of skills and the deterioration of promising enterprises, thereby worsening unemployment and balance of payments disequilibria.

Russia's skill base at the time the transition began was one of its greatest assets. The average levels of education in the USSR and eastern Europe exceeded those of semi-industrialised countries in east Asia and Latin America and the quality of eastern Europe's educational system was excellent. But the industrial strategy in the first years of the transition implicitly amounted to 'getting the prices right' (reducing real wages and increasing capital and raw material costs) and specialising according to 'comparative advantage', or manufacturing a bundle of goods whose production techniques favoured the relatively cheapest available domestic factor inputs (land, labour, or capital). Such a competitive approach might make sense under *de novo* conditions of under-development with no industrial base, where lowering wages and liberalising imports might create a competitive edge for labour-intensive industries.

But the idea of specialising on the basis of factor-price comparative advantage makes no sense at all in a highly industrialised country which already has a broad base of capabilities, especially mid-tech industries, and a huge stock of accumulated human skills. At the time of the transition a wide array of industries and a diverse assortment of skills already existed in Russia, so relying on lowering real wages and abruptly liberalising imports to boost growth and efficiency has therefore left a large segment of industries out in the cold. Transition policies inappropriate to the existing level of development have resulted in de-industrialisation rather than re-industrialisation or a transition. Just after the transition began many heavy goods producers and the large engineering sector, for example, tended to be internationally cost competitive, at least in terms of labour costs. To the extent that they were unable to compete in world markets, it was due to low quality and outdated technology. Lowering real wages did not address their problems, but rather inflicted real injury by sharply lowering domestic demand. Rather than following comparative advantage, a more sensible industrial strategy would have been to focus on restructuring the most promising enterprises, whatever their industry.

To resolve the pervasive bottlenecks of low quality and outdated technology required time and money (substantial or modest, depending on the firm). Yet few private capitalists – certainly few local ones – were interested in tackling these long-term problems. Amid the transition's political uncertainties and erratic inflation rates, the objective of most capitalists was understandably a fast pay-back and a high rate of return, both of which were possible in many segments of the service sector. Without government intervention in the form of long-term restructuring of promising industrial enterprises, the threat of wholesale bankruptcy was very real. The failure of large SOEs also seriously endangered the health of small, new private manufacturing firms. The latter were typically dependent on the public sector for their inputs or final demand.

Resolution of the firm-size problem in Russia, moreover, could not simply be left to spontaneous market forces to rationalise whole industries or subdivide large-scale firms. The firm-size configuration that transition economists inherited was not only distorted in terms of too few small firms and too many large ones; it tended to be wrong in every direction. In a substantial number of leading industries firm (and plant) size was too small, requiring the hand of government (or some other long-term planning agent) to nourish enterprises to a scale sufficient to compete against the world's leading oligopolies.

Finally, for the defence industries of Russia even to begin the process of 'conversion' was inconceivable without long-term rationalisation; restructuring would be unavoidably time-consuming given the specialised technology of this sector and its lack of commercial products. Unemployment in this sector, given the high skill level of its employees, involves huge opportunity costs, while the chances for political dislocation are enormous.

An active role for the state in industrial restructuring is thus inevitable. The more this is openly acknowledged, the more rational and systematic government involvement can be. Instead, transition economists have shifted the entire burden of restructuring onto the shoulders of privatisation.

Pseudo-Privatisation

For transition economists and the World Bank, restructuring SOEs became identical to privatising them, which has not taken either meaningful or functional form. There was no consideration of restructuring before privatisation, or providing inherently viable enterprises with resources and an adjustment period to reach international competitive standards. It became an article of faith that SOEs were run either by crooks or by incompetents, and therefore providing them with the means to restructure before a change in ownership was assumed to be a waste of money. This sequence was out of the question because the conditions the World Bank attached to its structural adjustment loans effectively prohibited lending to public sector manufacturing firms.

In reality, transfer of ownership of SOEs (other than those engaged in petty manufacturing or small-scale services) to genuine capitalist (buyers with 'capital', broadly defined to embody technology and human skills as well as financial resources) has been virtually impossible. Socialism did not allow private accumulation on a scale large enough to enable even modestly capitalised enterprises to be privately bought at politically acceptable prices. Expectations about their enthusiasm for investment in Russia have proved highly exaggerated. Conditions attached to World Bank and IMF loans prevent offering incentives to foreign investors comparable to those available in China's special economic zones.

Foreign Investment: An Illusory and Unnecessary Solution

The history of direct foreign investment in Japan, South Korea, Taiwan, China and other late-industrialising countries suggests that typically such investment lags rather than leads growth. It enters when growth has

already gained momentum and then helps to accelerate it. Foreign investment has provided only a small fraction of total gross domestic capital formation. The foreign capital that has flowed into Russia and eastern Europe in the early stages of transition, particularly into the manufacturing sector, has been small in amount and unevenly distributed among a few countries.

The major motive of foreign investors in eastern Europe has been to exploit the domestic markets found there, not to allow the rise of rival producers in their home or third-country markets. Exactly the same is true in Russia, where a small amount to real foreign investment has been almost exclusively restricted to energy and raw materials. Real wage reductions, perversely, may have been more of a discouragement (in terms of reducing total demand, wiping out the core of the middle class and creating political instability) than an encouragement (in terms of lowering production costs).

Large foreign investors have also demanded protective tariffs or quotas against competitive imports as a precondition for investing in eastern Europe. Although a subsidy-free environment has been the goal of transition economists, make-shift incentives have become the reality within most post-socialist countries and in 'competition downward' between them. The latter kind of rivalry between weak and impatient governmental units (nations or regions) means that no one of them is able to bargain effectively with their mobile, patient foreign potential partners. Most foreign investment 'successes' that have been negotiated under these conditions have actually concealed large subsidies, anti-competitive arrangements or other developmentally disadvantageous features beneath the surface.

The fact that foreign investors are not bringing (and will not bring) the requisite credit, expertise and skills for capitalist development calls for a thorough policy reassessment in all of the post-socialist countries. As a study done for the United Nations Economic Commission for Europe observed, those devising policies and forecasting their outcomes may simply have gotten the policies wrong. Such a reappraisal has not so far resulted in a major policy shift on the part of either the IMF and World Bank or the post-socialist governments. Despite the mounting evidence that most managers of SOEs were honestly trying to restructure and that trade unions and employees' councils were not obstructing either privatisation or enterprise reform, there is still no willingness to allow restructuring before privatisation.

Because of the ideological conviction that virtually any means were justified to achieve privatisation, the privatisation method finally resorted to in desperation was one of 'giveaways' – shares in SOEs were distributed to adult citizens virtually free of charge. This 'pseudo-privatisation' attempted to create capitalism without any capital, or without the credit, skills, and expertise necessary to restructure now formally 'private' enterprises hindered by long-term bottlenecks.

Institutional Failures Yield Pseudo-Capitalism

Pseudo-privatisation has been emblematic of the pseudo-capitalism that has characterised the first years of transitional orthodoxy. The success of capitalism depends on the emergence of institutions to support long-term investment and risk-taking. The deep recession years of the early 1990s did not encourage serious institution-building along these lines. To relieve pent-up consumer demand, the early transition was notable for small investments in services (such as retail stores, restaurants and home-improvement construction). A distinction must be drawn between using the market for exchanging goods between small-scale firms and creating the institutions necessary for large-scale capitalist ventures.

In a simpler world, it took Europe, with minimal state intervention compared to the late-industrialising standards, centuries to achieve to industrialise. The transition economies of Russia and eastern Europe have largely succeeded only in inducing simple market exchange. They have also succeeded in creating substantial wealth for a few amid rising poverty for many, but that wealth has not come from the saving and investing behaviour at the core of real capitalism and real capitalist development. Given the political instability and the opportunities for short-term gain characteristic of the early transition period, the progressive face of capitalism seems unlikely to appear until a government emerges which is willing and able to induce long-term investments in new plant and equipment, starting real reconstruction.

In an ironic and somewhat perverse way the neo-liberal economists have proven the possibility of an effective developmental state in Russia. The dogged determination of post-socialist governments to privatise, with generous financial assistance from the IMF and World Bank and technocratic support from a well-paid, elite bureaucracy (the Committee for the Management of State Property) is evidence of what eastern Europe's educated societies are capable of achieving in the name of a strongly held goal. In the name of privatisation, these government agencies have accomplished what was assumed to be impossible in the name of restructuring: they ranked SOEs according to their future promise, based on information provided by professional management consultants. In some countries they have even created state-owned banks to serve as the co-ordinating agents of further financial reform.

The ideological flexibility to begin reforming the government itself, however, is still lacking. Reconstructing the state is a step that is crucial in order to permit restructuring of industrial enterprises on the basis of a carefully considered, systematic, and clear set of policies. It is essential to admit, acknowledge and actively proclaim the active state responsibility for creating the conditions under which market relationships can function effectively and begin to yield some of the expected positive results.

Wilful Failure to Learn from Late-Industrialising Model

What Russia, eastern Europe and other late-industrialisers share is the need to catch up without being able to depend on original technology. Their entry into world markets would be far easier if they were able to ride the dynamic of radically new technology such as was the basis for the economic development of both England and the US (and even aided 'backward' continental countries such as Sweden in catching up with world income leaders). In the late 20th century technological differences are a primary factor which makes Anglo-American and even western European development patterns entirely inappropriate for Russia and eastern Europe to try to follow. Late-industrialisers have had to grow predominantly through learning or borrowing foreign technology that has already been commercialised elsewhere.

With entry barriers to modern industry rising in the form of high research and development expenditures in advanced capitalist countries, it has become difficult for late-comers to leapfrog to the world technological frontier. Without the competitive advantage of radically new products and processes to determine the pace and direction of industrial development, the need for government guidance is much greater than in the past.

The Russian and eastern Europe governments have made few serious efforts to learn about the successes or failures of other late-industrialising regions. In eastern Europe this neglect results partly from an effort to assert a cultural identity with western Europe, but it is also due to lack of information. In Russia at least the former excuse is less relevant. The western economic doctrines that penetrated the Iron Curtain stopped short even of modern Keynesianism, let alone the east Asian approaches to development and transition. East Asian development has at its centre dirigism, where the state takes on a role which is strongly

directive, but relying on a mixture of privately-owned, mixed and state enterprise forms

Because the east Asian experience – which has involved rapid growth and an activist state – so contradicted western economic philosophy, it has tended to be either ignored or misrepresented as *laissez-faire*. The 1993 World Bank study of the Asian Development Model is an example of the latter, carried to a form of self-parody. The late-industrialising model has also been ignored because it has been associated with dictatorship or authoritarianism, and because not all dirigiste late-industrialising regions have performed well.

Dismissal of the late-industrialising model is costly in terms of the lessons forgone. Two key ingredients in east Asian success have been strongly represented in Russia and eastern Europe in the early stages of transition: high levels of education and income equality. In Japan, South Korea, and Taiwan, high levels of education have underscored the efficiency of the bureaucracies in both the private and the public sectors. Equal income distribution prevented self-interested private concentrations of economic power from dictating economic policy. Government intervention in east Asia has been relatively effective partly because the government is powerful enough to impose performance standards on business in exchange for financial support.

If the post-socialist economies could actually succeed in matching, say, the growth rates of Brazil and Turkey from 1965 to 1980 (around 9 and 6 per cent per annum), or even the steady growth rate of India (about 4 per cent per annum), they would be doing rather well. Although it is unclear whether the spectacular east Asian growth rates could have been achieved under more democratic conditions, it is absolutely clear the primitive capitalism in Russia is undermining political democracy by failing to achieve even minimal rates of broad-based growth and development. Ironically, infringement on political liberty in post-socialist states has been justified by pragmatists as necessary for rapid economic development.

Beyond Shock Therapy and Neo-Liberal Pseudo-Science

Unfortunately, the economic policies of the early transition have severely under-utilised eastern Europe's human capital and either fatalistically accepted or deliberately provoked rising income inequality as a badge of the arrival of capitalism. There are clear links between the Russian/east European and east Asian experiences so it is vital to re-examine the conditions in Russia and eastern Europe that are conducive to re-industrialisation before time runs out and the remaining opportunities vanish.

Influential western economists insisted early in the transition that there was a broad theoretical and policy consensus regarding market reform. Yet, a complete set of structural and policy measures for the transition economies was never fully specified, and precisely what policy instruments were supposed to achieve which specific growth targets was not made clear. Reading between the lines, the neo-liberal consensus had at its centre a naive belief in the self-organising power of markets – in the spontaneity and automaticity of markets, as well as the ultimate wholesomeness of the outcomes they produced -- regardless of surrounding conditions. Most of this array of policy prescriptions and proscriptions made on this basis were simply wrong and proved to be unworthy of the name 'analysis'. The mode of proof was generally 'argument by assertion' – the better known the advocates of shock therapy, the less rational argument was provided, as a rule.

The transition to capitalism required a more visible hand than neo-liberalism envisioned. The post-socialist transition can still succeed if orthodox economics and neo-liberal ideology yield to an approach grounded in the realities of modern economic life rather than free-market pieties. Such an approach to renewal dictates a five-part course of action:

(1) encouraging macro-economic expansion, mobilising positive supply-side dynamics. This will require treating inflation as one in a series of concerns and moving beyond the obsessive old style monetarism which treats inflation as the core concern of macro-economic policy and the lodestone of system performance;

(2) dealing with inflation through structural and regulatory approaches which admit and deal with the monopolistic structures which have arisen in Russia and stand in the way of the expected advantages of free markets;

(3) creating conditions under which viable state enterprises can identify themselves by their performance;

(4) giving these SOEs (as they turn into fully privately owned or mixed enterprises) adequate institutional support to allow a saving and investment process to take hold and further technical advance; and

(5) empowering a government bureaucracy that can harmonise the practice of political democracy with the degree of active economic governance that modern capitalism requires.

Recovery must commence from the truly disastrous conditions: there have been few successes at any level, with depressing numbers for output and inflation; avoidable enterprise collapses; financial misadventure; and much of the progress claimed for the privatisation is illusory. Even more disheartening is the extent to which the decay throughout the production structure continues.

There has been a political reaction to these economic failures, and the implications for the future are worrisome. In Poland, Hungary and Bulgaria centre-left governments have routed the original 'reform' governments from power, but lack clear alternative programmes. The stalemate in Russia has continued throughout the supra-constitutional period after December 1993, with the orthodox reform party a weak Duma minority and economic reform still largely a matter of inconsistent and ultimately reversible presidential decrees.

The much lamented ability of enterprises and regions to thwart Moscow economic policy initiatives is in some respects good fortune, slowing or limiting the effects of ruinous policies. It may be possible to learn something from the blend of policies and tactics adopted by various city and oblast governments during this strange period of Moscow indifference to the extent of actual application of what are proclaimed to be national policies.

An Action Programme for Economic Survival

It is not too late. A successful development policy is possible in Russia, but only on the basis of a very different economic policy with very different political foundations. Despite the many problems, other initial conditions in Russia and the east European nations are good. Most important among these are the relatively equal income distributions and the high education levels of post-socialist nations. The present tendency toward increasing inequality create social tensions and are likely to result in strong pressures for fiscally destabilising redistributive programmes (although reconstituting the minimum structure of the welfare state will be difficult enough). A high level of education is certainly a necessary, though far from sufficient, condition for productivity and income growth. The continuing decay of research and teaching facilities and conditions bodes ill for the future.

To capitalise on what remains of these advantages, prudently aggressive macro-economic policy will be helpful, despite the risks of inflation it entails. Analysts concerned predominantly with price stability often call for more austerity than sustained re-industrialisation can endure. In the postwar period, semi-industrialised countries that achieved steady output growth – including South Korea since the 1950s, China since the late 1970s, and Brazil between 1945 and 1980 – did so under consciously expansionary macro-economic regimes. When conflicts arose between enhanced subsidies or cheaper credit for industrial development and macro-economic restraint, the latter was often sacrificed.

This is not to say that one should not be wary of severe macro-economic imbalances. After all, there was a wrenching stabilisation in Brazil in the mid-1960s, and its 35 years of rapid growth were cut short by the debt crisis. But maintaining industrial growth seems to require robust expansion of domestic and export demand. There is nothing worse for the investment plans and learning process of the private sector than a few cycles of repeated stop-and-go production. Well designed public investment projects, by contrast, usually stimulate private capital formation in the so-called 'crowding-in' process little discussed in Russia.

To avoid recurrent stability crises the balance of payments and inflation have to be kept under tolerable control. Continued export growth and access to foreign borrowing are essential to external balance. Restrictions on capital movements can help keep the overall balance of payments in line and also permit internal cheap credit policies. It helps to have fiscal balance in which positive government saving (current revenues in excess of current expenditures including interest payments), and the difference between public investment and government saving (essentially the public sector borrowing requirement) should be no more than a few per cent of GDP.

Fiscal balance and real wages growing no more rapidly than labour productivity are essential for holding price increase in check. While an 'independent' central bank may be important as a symbol, price and wage regulation of the kind used in South Korea since the early 1970s may be a better tool for assuring relative price stability in a way consistent with overall growth. Such controls avoid the blunt and wasteful effects of credit crises and recessions regularly induced by monetary policy when it is forced to carry full responsibility for price stability.

Crucial macro-economic details can aid the industrial restructuring task. Cheap, direct credit should be accompanied by closed international credit markets and a state role (not necessarily control) in banking. Public development banks are the preferred model in most parts of the world. Externally, a weak exchange rate stimulates export growth, but may be difficult to maintain in a country like Russia with ample raw material endowments. Exports from such sources can obviate the need for a high local price for hard currency, making directed incentives for other export lines that much more essential. An undervalued currency also goes hand in hand with low real wages. Given the dramatic wage cutting during the transition period the political feasibility as well as the likelihood of a favourable economic response to further income reductions are low.

In a buoyant macro-economic environment, companies themselves can surmount the problems of the past, but only with the active co-operation of the state. The now vanished principal/agent structure of socialist enterprises puts planners with imperfect information in charge of managers who could sometimes pursue their own private interests. Both sides benefited from high material throughput, lubricated by the soft budget constraint. Outside easily privatised sectors like retail trade, the former principals have been replaced by public entities that still own the bulk of the large firms and must make them tick. Managers must learn capitalist mentalities with their ongoing technical, investment and marketing education being more essential than the introduction of 'hard' budget constraints to industrial recovery and growth.

The key initial task is restructuring: management and technology problems have to be resolved, in order to allow potentially healthy enterprises to get under way. SOEs will have to shed some of the welfare responsibilities they carried under socialism, but this transformation must be done carefully and in a socially agreed upon fashion. This transformation may cause extreme fiscal difficulties even if done very carefully. A fundamental reorganisation of this relationship is essential if any sort of western-style democratic corporatist social order is to appear.

As firms (whether SOEs or POEs) reconstitute themselves, they will need institutional help. Finance for expansion has to be available, along with a favourable investment climate. Experience around the world shows that for nations not at the technological frontier, jointly mediated state and private sector procedures for 'picking winners' are feasible and indeed necessary for growth. The old Japanese criteria of supporting industries that sell products with high income elasticities of demand and in which rapid productivity growth would appear to apply just as well to the post-socialist countries as they did for MITI in 1950-70, for Korean planners in 1960-80, and for Chileans in 1970-90. Similarly, useful is the Korean practice of tying incentives to enterprise performance (especially exports), while using tariffs and quotas to ensure domestic producers an adequate cash flow from sales in the protected local market. Through indicative planning, self-destructive price competition and wide investment swings in sectors with scale economies can be avoided.

Such a planning operation will be needed because the price system is not the only bearer of economic information. Transmitting the messages the market does not carry is far easier among a reduced number of actors, and this simple fact points functional economic systems in the direction of large and/or collaborating enterprises, labour federations, and a bureaucracy that can guide producers to operate coherently with directed supports. All parties can ease the transmission of newly acquired technologies to the factory floor.

The free-market models that have been applied to eastern Europe do not recognise that successful semi-industrialised economies have shared these supra-market features. In due course, the worldview of the Washington consensus is bound to be replaced. There are also specific interventionist actions – co-operation between private firms and regional

authorities all over western Europe, the township and village enterprises in China, even American innovations like the Tennessee Valley Authority – which may find emerging analogs under post-socialism.

With democratic corporatist capitalism and a mixed economy as the general target, the last operational question is how to constitute an economically functional bureaucracy to control restructuring, privatisation, and then regulation and guidance of efficient enterprises (whether privately, publicly or otherwise owned. The human capital base and political tradition for an effective bureaucracy exist in eastern Europe. It will take a political act of will to bring it into being. Well-paid, competent privatisation ministries have been set up in several countries, in line with the ideological predilections of the reformers. The political process itself will determine how long it takes for effective indicative planning offices to emerge in their place.

Reinventing Government: Transparency as a Key to Renewal

Reinventing planning is the other side of the coin of effective privatisation. What will not work is pseudo-privatisation, or the implementation of an idealised Anglo-American system which depends on owners/principals to impose economic efficiency on the managers/agents who run their firms by use of voice and threats of exit. Such a capital market is a textbook fiction. In practice, the post-socialist countries are likely to follow their western cousins by moving toward cartels, conglomerates and insider-based mechanisms for financial control. Embedded public/private collaboration in managing change goes together with this sort of ownership structure.

It is commonly argued that the Russian government is too corrupt to carry out the ambitious functions of an activist developmental state. This counsel of despair is especially self-serving, when it comes from advocates of the continuation of the current *laissez-faire* policy which has actively created the current conditions. Ignoring the self-interest of many of its proponents, this argument can be seen as a challenge to institutional creativity. How can the competitive, at least partially self-policing, features of a successfully functioning market economy be nurtured under current conditions? Transparency, in the sense of openness to public view, in the process of privatisation and institutional creation would do much to start movement in a positive direction. Making the process, terms and ultimate distribution of property rights and concessions public information would have a healthy oxidising effect on governmental conduct. Much of the secrecy and manipulation of the current way of doing things has resulted from the fundamental unpopularity of the policies being pursued. It is true that the less that is known about unpopular decisions, the less the resistance. That is only an argument for secrecy when wise policy is being pursued – clearly not the case here, now.

Popular Support for New Institutions Key to Successful Reform

How can such economic development be made consistent with democratic politics? Sustained output growth (with enterprise ownership swinging gradually toward the private sector) will have to be guided by politicians and bureaucrats sharing the long view and holding considerable power over management and labour. Can all these parties coexist with changing elected leadership, and can they monitor both the reconstruction of the means of production and the reweaving of the social safety net? Societal answers to these interlocking riddles will have to be found before sustained output and employment growth can provide legitimacy for democratic politics and ratify the replacement of socialism by a humane mixed system in the former Soviet Union and eastern Europe.

The current neo-liberal policy regime is a developmental dead-end. It is unable to achieve real reform because there is no broa[d] democratic assent to the institutions an[d] ground rules of the new system. Becaus[e] neo-liberal doctrine has virtually no popula[r] support it will require authoritarian tactic[s] to maintain control as it uses its painful an[d] unpopular methods (which are also ba[d] development policy). Nothing done unde[r] these current conditions can be assumed t[o] be permanent, so neither internal nor foreig[n] decision-makers can apply rational appraisal techniques to economic life, only postponing and making more painful the unavoidable restructuring.

The political requirements for sustainable economic development which avoids widespread repression are consensus on semi-constitutional 'rules' establishing the institutions of a market economy – the array of detailed issues concerning property rights, the division between market and non-market decision-making and the rights of citizenship (which include the definition of individual entitlements) and the obligations of state/regional/city governments. While there can be no successful development without an active and coherent state role, there is no reason that this requires an authoritarian state. An array of policies more closely in line with Russian social and cultural traditions would allow economically rational policies to be pursued in a democratic context.

Migration, Urbanisation and Regional Inequality

Amitabh Kundu
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An analysis of migration patterns using data (on male migrants) from the census indicates a slowing down of population mobility over the decades since independence. This article focuses on the dynamics of migration and urbanisation in the context of the changing structure of economic development.

THE process of globalisation is increasingly breaking the economic barriers to trade and investment in the direction of making the national production systems a part of the global economy. Capital can move to any country and commodities can be produced anywhere seems to be the guiding principle. Natural resources can also be transported over long distances for being processed without prohibitive cost. Indeed, several multinational companies and individual entrepreneurs are producing commodities in the less developed countries at a low cost using their cheap labour and other natural resources. The process, it is hoped, would, through its multiplier effects usher in industrial development in these countries. However, for the process to work, the governments are expected to provide transparent and stable administration, maintain law and order and create a congenial and competitive economic environment. The state, it is argued, should thus facilitate entrepreneurs in taking their own decisions regarding output and employment mix, location, export, import, appropriation of profits, etc. Of course, some of the small entrepreneurs expect governments to provide certain infrastructural facilities and basic amenities. The big companies are, however, often willing to undertake this responsibility themselves, in exchange of long-term agreements or for certain special fiscal and administrative concessions.

The emphasis is, thus, on production activities being allowed to move to the areas where the labour and natural resources are unutilised or underutilised. The underlying assumption seems to be that it is far more difficult and costly to move labour to centres of production and make appropriate provision for them rather than shifting the production base. Economic liberalisation is, thus, expected to reduce economic inequality at the global level through acceleration of growth in less developed countries which, in turn, would reduce their outmigration of labour. The industrialists setting up production units in these countries may not consider slowing down of population mobility as their avowed objective but that would be the logical outcome of their decisions at the macro level. The policy of liberalisation, which implies greater movement of capital and natural resources, may, thus, be associated with growing immobility of workforce and population. It is indeed true that during the past couple of decades, when the constraints to movement of commodities have been relaxed or removed, such constraints for the movement of people, and in particular labour, have been strengthened. In view of the above trend, it would be important to analyse the migration pattern across regions to assess whether, and if so, to what extent, the population has become immobile over the past couple of decades. It would also be interesting to identify the socio-politcal and institutional factors, besides the pure economic factors, responsible for the possible decline in labour mobility.

The hypothesis regarding decline in spatial imbalance and slowing down of population mobility can be examined at different levels. Besides the global level exercise done by taking the countries as the units of observation, one can do the analysis across regions within a country or a state. It would, for example, be worthwhile to analyse whether regional disparity in a large country like India has gone down with economic growth over the years and how that has affected population mobility. Indeed, it is

TABLE 1 PATTERN OF INTERNAL MIGRATION IN INDIA, 1961-81

(Number of migrants in millions)

	1961	1971	1981	Growth Rates 1961-71	Growth Rates 1971-81
Total population	438.90	548.20	665.30	24.88	21.37
Total migrants					
Intercensal	66.10	68.20	80.10	3.18	18.77
	(15.06)	(12.43)	(12.17)		
Lifetime	135.30	157.40	195.80	16.31	24.38
	(30.38)	(28.70)	(29.50)		
Male population	226.20	284.10	343.90	25.66	21.13
Male migrants					
Intercensal	25.60	26.80	30.40	4.65	13.75
	(11.30)	(9.42)	(8.85)		
Lifetime	41.90	48.80	57.20	16.63	17.10
	(18.50)	(17.20)	(16.80)		
Female population	212.80	264.10	321.40	24.12	21.68
Female migrants					
Intercensal	40.50	41.40	51.50	2.33	22.02
	(19.01)	(15.68)	(15.72)		
Lifetime	93.40	108.60	138.60	16.27	27.62
	(43.90)	(41.10)	(43.10)		
Rural males	183.20	225.30	260.00	22.98	15.40
Rural male migrants					
Intercensal	15.40	15.90	16.30	3.58	2.32
	(8.39)	(7.06)	(6.27)		
Lifetime	25.70	29.10	30.00	13.30	3.14
	(14.00)	(12.90)	(11.09)		
Urban males	42.80	58.70	83.90	37.15	42.93
Urban male migrants					
Intercensal	10.20	10.90	14.20	6.37	30.41
	(23.83)	(18.48)	(16.86)		
Lifetime	16.20	19.70	27.10	21.93	37.73
	(37.80)	(33.60)	(32.40)		

Notes: The figures in brackets are percentages to the corresponding total population. Lifetime migrants are those that were enumerated at places other than that of their birth Intercensal migration figures are based on the concept of place of birth for the year 1961. For 1971 and 1981, the figures are based on the concept of last residence implying that the people residing anywhere other than the place of enumeration are considered migrants The figures for 1981 do not include Assam as Census could not be conducted there. The data are obtained from the Migration Tables in various Population Censuses.

impossible to analyse the impact of liberalisation programme on movement of population as no reliable data on migration are available after 1991, the year in which the programme was formally launched by the government of India. What would, nonetheless, be interesting is to analyse the pattern of regional disparity and migration since independence, viz, 1947, and see if the two reveal some kind of association. Based on the past trend and the stipulations of the liberalisation strategy, it should then be possible to speculate on the trend of regional disparity in the 1990s and its impact on the mobility of population.

An attempt has been made in the present paper to examine whether there has been a slowing down of population mobility over the decades since independence and if so, whether that can be attributed to investment in backward areas and consequent decline in regional imbalance. Importantly, measures to remove administrative controls and let loose the forces of free market were adopted, although in an ad hoc manner, since the 1970s. Consequently, the impact of liberalisation on regional disparity can, to an extent, be assessed from the state level data for the 1970s and 1980s, as attempted in the paper. Similarly, the migration pattern has been analysed at the state level using the data on made migrants only from the Population Census. Only the male migrants have been considered in the study since famale migration in India is attributed largely to marriage, joining the family and other social factors. Also, female mobility is likely to change only over a long period of time with changes in social customs and practices whereas male migration is likely to respond directly to the changing economic scenario. The thrust of the paper being on the dynamics of migration and urbanisation in the context of changing structure of economic development, the exclusion of female migrants can be defended. The pattern of female migration has, nonetheless, been analysed at the national level, with the specific objective of comparing it with that of the male counterpart.

Kingsley Davis, in early 1950s, in his pioneering work *The Population of India and Pakistan* had observed that the population of the Indian subcontinent was relatively immobile. He attributed this immobility to prevalence of caste system, joint families, practice of early marriage, diversity of language and culture, lack of education and predominance of agriculture in the economy. It is argued that a society bound by caste and family system and traditional values often acts as a deterrent to migration. By the same logic, improvement in the levels of education and that of transport and communication facilities would increase mobility. Interestingly, however, an analysis of the trend in population mobility in India reveals that, despite significant improvements in education, transport and communication facilities, growth of industries, diversification of the economy, modernisation of norms and values, etc, population mobility has declined during the recent decades.

The pattern of internal migration (excluding the international migrants) for males and females during the 1960s and 1970s has been presented in Table 1, giving the figures for both intercensal as well as lifetime migrants separately. It may be seen here that mobility of population has, in general, declined both in rural as well as the urban areas during 1961-81. The rural and urban male population increased by 23 and 37 per cent, respectively, during the 1960s whereas the growth rates of intercensal migrants were around 4 and 6 per cent, respectively. The lifetime migrants, too, grew at a rate smaller than that of total male (population), the figure (for rural and urban areas) being 16 and 22 per cent, respectively. During the 1970s, the growth rates of intercensal and lifetime migration for urban males were 30 per cent and 38 per cent, respectively. These were below the growth rate of urban population in the decade

TABLE 2: PERCENTAGE OF INTERCENSAL MALE MIGRANTS IN DIFFERENT STREAMS, THEIR SEX RATIOS AND GROWTH RATES

Migration Streams	1961 Male Migrants	1961 Sex Ratio	1971 Male Migrants	1971 Sex Ratio	1981 Male Migrants	1981 Sex Ratio	Growth Rates of Migrants 1961-71	Growth Rates of Migrants 1971-81
Intra-district								
RR	71.67	2519	66.78	2428	59.55	3095	−2.39	−1.57
RU	17 43	982	17.64	997	21.79	1078	6.06	36.34
UR	4.92	1386	8.26	901	8.59	1401	75.75	14.70
UU	5 87	1096	7.01	1022	9.98	1146	25.09	57.32
Per cent to total internal migrants	52.12	2112	52.17	891	50 63	2080	4.76	10.37
Inter-district								
RR	41.8	1676	35.89	1800	31.46	2113	-8.24	8.71
RU	31.69	743	25.57	819	29.35	923	13.79	42.35
UR	6.35	1170	10.64	1090	10.52	1229	79.21	22.58
UU	20.05	976	27.39	957	28.56	1098	45.96	29.33
Per cent to total internal migrants	28 05	1208	28.64	1241	31 23	1381	6.86	24
Interstate								
RR	28.59	1002	25.24	1186	22 59	1402	-10.6	-3.73
RU	40.7	481	30 61	588	29 12	857	-23.86	2.35
UR	4.7	895	10.44	758	9 67	949	125.06	-0.41
UU	25.54	760	12.28?	820	30.79	993	23.98	5.91
Per cent to total internal migrants	19 83	720	19.18	826	18 14	968	1 26	7.58

TABLE 3: PERCENTAGE OF LIFETIME MALE MIGRANTS (EXCLUDING FOREIGN NATIONALS), 1961, 1971 AND 1981

States	Percentage of Male Migrants to Total Males 1961	1971	1981	Percentage of Rural Male Migrants to Rural Males 1961	1971	1981	Percentage of Urban Male Migrants to Urban Males 1961	1971	1981
AP	21.17	21.22	20.45	17.51	17.79	15.79	38.17	35.34	35.5
Assam	21.39	22.51	–	19.87	20.89	–	37.12	37.65	–
Bihar	12 15	9.45	8.38	7.43	6.59	4.93	38.78	33.2	31.01
Gujarat	19 74	19.54	20.1	13.95	13.59	12.74	35.91	34.35	35.51
Haryana	–	13.18	13.59	–	9.92	8.77	–	28.26	30.48
HP	–	16.80	18.69	24.96	14.54	15.61	52.77	55.00	52.22
J and K	11.84	10.98	9.48	10.42	9.82	8.34	18.81	15.94	13.82
Karnataka	23 53	23.04	22.27	19.56	16.25	17.05	36.91	34.48	34.81
Kerala	20.04	16.91	20.49	19.3	16.43	20.49	24.06	19.35	20.56
MP	22.48	20.40	19.24	19.24	17.12	15.05	40.81	36.50	35.06
Maharashtra	30.79	29.19	31.87	21.6	20.26	23.7	51.88	47.26	45.99
Orissa	13.59	16.95	15.68	11.44	14.12	11.6	42.17	45.29	44.12
Punjab	17.21	15.92	24.93	12.84	11.36	23.13	33.83	30.52	28.69
Rajasthan	11.99	12.58	12.75	9.38	10.03	9.58	25.17	24.18	24.30
TN	18.61	19.88	18.95	13.08	14.33	12.67	33.46	32.44	31.52
UP	11.57	8.93	7.23	8.44	6.17	4.49	31.60	25.28	19.40
WB	20.12	15.77	13.47	13.35	11.97	8.48	38.46	26.13	26.47
India	18.5	17.20	16.80	14.00	12.90	11.90	37.80	33.60	32.40

Source: Based on data obtained from Migration Tables, Census of India.

which was around 43 per cent. Importantly, there has been a significant fall in the growth rate of migrants from rural areas during the 1970s. The growth rates of intercensal and lifetime male migrants work out as 2 per cent and 3 per cent during 1970s whereas the rural population registered a growth rate of 15 per cent. The percentage of intercensal male migrants (rural and urban combines) within the country has thus gone down from 11.3 per cent in 1961 to 9.4 per cent in 1971 and further to 8.8 per cent in 1981. The corresponding percentage figures for lifetime migrants are 18.5, 17.2 and 16.8 at the three points of time.[1] The pattern is somewhat different for the female counterpart. The female migrants grew at a slower rate than the population during 1960s both for intercensal and lifetime migrants. The pattern being the opposite in the 1970s. The percentage of female migrants, therefore, declined during 1961-71 but increased marginally during 1971-81.

Table 2 presents the structure of intercensal migrants disaggregating them into four streams, viz, rural to rural (RR), rural to urban (RU), urban to rural (UR) and urban to urban (UU). Each stream has further been broken down into three categories based on the nature of movement, viz, within the district, across the district but within the state and across the state. A slow growth of migrant population may be noted in case of most of the streams. The decline is particularly noticeable in case of RR stream. Besides, the percentage of interstate migrants to total migrants has gone down from 19.83 to 19.18 during 1960s and further to 18.14 during the 1970s. Other factors remaining constant, one would expect an increase in this figure due to emergence of several new states during the period. The decline, therefore, is significant and must be interpreted as a process of slowing down of population mobility across the state boundaries. It may be argued that the migrants are increasingly getting absorbed within their own states, possibly due to socio-political factors, constraining their mobility. The decline in inter-state migration is largely due to the decline in the RU stream. This can perhaps be explained in terms of deceleration of growth in the large cities in the developed states that attracted the rural poor from the backward states. These people, coming from distant areas, are not able to find a shelter for themselves, possibly due to city planning restrictions imposed in these cities, growth of regionalism, overcrowding and lack of basic amenities to the poor.

The component of intradistrict migrants has also gone down but this is directly linked with an increase in interdistrict component. This may partly be explained in terms of the increase in the number of districts during 1961-81. Many people classified as intradistrict migrants in 1961 Census got classified as interdistrict migrant in the subsequent censuses in case of a division of the district. The disaggregated data on migrants in different streams suggests that movement to urban areas (from both rural and urban areas) within the state has gone up significantly during 1971-81, compared to the previous decade. The growth rates are higher than the corresponding rates for interstate migration. This implies that during 1970s, migration within the state contributed more to urban growth compared to that in the previous decades as also the migration across the states.

The growth rates of female migrants have always been higher than the corresponding growth rates of male migrants. This has resulted in an increase in the sex ratio, defined as females per thousand of male population, in all the streams (Table 2). The basic reason for this is that unlike the male migration, female migration is, to a great extent, relatively independent of the economic factors and has not declined much over the years.

Migration Dynamics: Regional Dimension

The percentage of internal (lifetime) male[2] inmigrants, viz, migrants excluding the foreign nationals, for the states and union

Table 4: Percentage of Interstate Male Inmigrants (Lifetime), 1961, 1971 and 1981

States	Percentage of Total Inmigrants			Percentage of Rural Inmigrants			Percentage of Urban Inmigrants		
	1961	1971	1981	1961	1971	1981	1961	1971	1981
AP	1.40	1.42	1.32	0.66	0.68	0.64	4.8	4.41	3.48
Assam	5.37	4.63	–	4.24	3.26	–	17.21	15.19	–
Bihar	1.62	1.28	1 09	0.84	0 50	0.39	9.16	7.57	5.70
Gujarat	2.81	3 07	3.05	0 97	0.97	1.19	7.92	8.11	8.32
Haryana	–	6.04	6.33	–	4 08	3.42	–	14.72	16.52
HP	5.24	3.79	3 85	4 24	2.33	2.61	23.21	20.86	17.17
J and K	0.85	1.62	1 32	0 55	1.33	0.88	2.33	3.08	2.87
Karnataka	4.31	3 76	3.95	2.41	2.15	2 13	10.15	8.41	8.33
Kerala	1.47	1 22	1 36	1.25	0.98	1 18	2.63	2 32	2.08
MP	4.29	3.8	3.43	2.11	1.68	1.41	16.57	14.01	11.05
Maharashtra	7.44	7.53	7 56	1.35	1.45	1.93	20.51	18.99	17.43
Orissa	1 72	2.08	2 27	0.95	1.02	1.11	11.99	12.53	10.38
Punjab	2.9	3.71	4.48	1.41	1.68	2.24	8.59	10.10	10.01
Rajasthan	2.33	2.21	2.36	1.57	1 37	1 42	6.11	5.96	5.74
TN	1.80	1.91	1.68	0 61	0.62	0.52	4.99	4.81	4.02
UP	1.08	0.96	0.80	0.47	0 37	0.42	4.95	3.86	2.46
WB	8.45	6.11	5.28	3.06	2.65	1.34	12 30	12.45	12.90
India	3 48	3.38	3.34	1.38	1 33	1.19	12.46	11.22	10.02

Source: Based on data obtained from Migration Tables, Census of India.

Table 5: Percentage of Interstate Male Outmigrants (Lifetime), 1961, 1971 and 1981

States	Percentage of Total Outmigrants			Percentage of Rural Outmigrants			Percentage of Urban Outmigrants		
	1961	1971	1981	1961	1971	1981	1961	1971	1981
AP	2.29	2 31	2.73	1.96	1.84	1.82	4.33	4.07	3.42
Assam	1.05	1.36	-	0.75	0.98	–	3.63	4.43	–
Bihar	5.59	4.70	3.91	4.72	4.06	3.46	7.58	5.90	6.07
Gujarat	3 79	3.23	2.92	2.68	2.61	2.48	6.74	4.60	3.76
Haryana	–	6.18	8.81	–	5 11	5.05	–	10.76	9.39
HP	4.8	7.26	6.70	4.12	5.47	4.77	16.49	27.28	25.62
J and K	2.64	1.69	1.59	1.99	0.96	0.85	5.66	4.96	3.99
Karnataka	3.04	3.42	3.53	2.19	2.39	2.83	5.87	6.39	5.13
Kerala	4.85	5.54	5.16	3.43	3.59	3.40	12 54	17.67	12.33
MP	1.88	1.63	2.63	1.47	1.21	1.65	4.14	3.49	2.94
Maharashtra	1.94	1.90	1.90	1.54	1.43	1.51	2.78	2.81	2.56
Orissa	3.1	2.32	1.96	2.84	1.94	1.43	6.29	4.44	3.46
Punjab	6.29	8.64	6.82	5.42	6.98	5.75	9.50	13.00	10.26
Rajasthan	5.07	5.08	4.08	4.39	3.97	3.55	8.46	7.82	5.86
TN	3,41	2.72	2.99	2.96	1.99	2.19	4.58	4 27	4.57
UP	4.05	4.32	4.68	3.46	3.52	4.07	7.66	8.17	7.24
WB	1.49	1.44	1.34	1.22	0.96	0.83	2 17	2.69	2.64
India	3.48	3.38	3.34	2.97	2.69	2.79	5.46	5.49	4.95

Source: Based on data obtained from Migration Tables, Census of India.

territories in the country are presented in Table 3 for 1961, 1971 and 1981. The regional variation in the percentage of migrants provides interesting insight into the development dynamics in the country. It may be seen in the Table that the backward states like Bihar, Jammu and Kashmir, Uttar Pradesh, Rajasthan, Orissa, etc, report a low percentage of male migrants in 1961, 1971 and 1981. The only major exceptions are the states of Madhya Pradesh and Andhra Pradesh.[3] The developed states, on the other hand, show high figures, generally above the national average. Here the exceptions, viz, reporting low migration rates, are Haryana and West Bengal. One must, however, add that the smaller states like Assam and Himachal Pradesh (as also the north-eastern states like Meghalaya, Nagaland, Sikkim, not included in Table 3) exhibit high inmigration rates because of massive government effort for developing the administrative infrastructure and basic services in the post-independence period [Kundu 1995]. Importantly, there is a declining trend of migration in almost all the states.

The percentages of interstate (lifetime) inmigrants in Table 4 shows variation across the states similar to that of total migrants in Table 3. High rates are registered for rural as well as urban areas in most of the d·veloped states like Gujarat, Haryana, Karnataka, Maharashtra, Punjab and West Bengal with the significant exception of Tamil Nadu. The smaller states like Assam and Himachal Pradesh (as also Meghalaya, Nagaland and Sikkim, see Kundu 1995), once again, report high inmigration. The less developed states, on the other hand, report low incidence of interstate inmigration, as expected. Madhya Pradesh emerges as an exception, registering high rate of inmigration. This may be explained in terms of massive public sector investment and expansion of linked tertiary activities in the states, attracting workers from other states.

Table 5 provides the spatial profile of interstate (lifetime) outmigration from both rural and urban areas. Here, the pattern appears to be just complementary to that of inmigration, as noted in Table 4. The backward states like Bihar, Himachal Pradesh, Kerala, Rajasthan and Uttar Pradesh have high outmigration rates in all the years under consideration for both rural and urban areas. Only Madhya Pradesh and Orissa emerge as exceptions. People in these two states, possibly due to illiteracy, traditional background, etc, are unable to become a part of the national labour market and avail better prospects outside the state. The case of Punjab and Haryana, reporting high outmigration from both rural and urban areas, is partly due to their being a part of one state in the early 1960s. After the bifurcation of the state of Punjab (in 1966), many among those who had moved within the state, got classified as interstate migrants due to jurisdictional changes. Importantly, there is a decline in the percentages of both interstate inmigrants as well as outmigrants (lifetime) for most of the states (Tables 4 and 5).

The analysis of intercensal (interstate) inmigrants, too, reveals that male mobility has declined across all the major states (Table 6). The states reporting percentage of inmigrants higher than the national average in 1981 are Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Tamil Nadu and Himachal Pradesh. Important point to note is West Bengal, which had a high percentage of inmigrants in 1961, has registered a drastic decline, so much so that its value is less than the national average in 1981. Also, the urban figures for the backward state of Himachal Pradesh are very high – much higher than that of many developed states closely followed by Orissa at all the three time points.

It has been mentioned above that the percentage share of inter-state migrants has been diminishing gradually over the years. The figure has declined sharply in all the developed states except Gujarat, Punjab and Haryana (Table 7). The fall in the value for West Bengal from 43.4 per cent in 1961 to 25.6 per cent in 1981 is indeed very significant. The increase in case of Punjab and Haryana can be attributed to the bifurcation of the state, as discussed above.

Rates of net interstate (intercensal) migration are presented in Table 7. It can be noticed that except Tamil Nadu all the

TABLE 6: PERCENTAGE OF (INTERSTATE) MALE INTERCENSAL INMIGRANTS 1961, 1971 AND 1981

States	Percentage of Rural Inmigrants			Percentage of Urban Inmigrants			Percentage of Total Inmigrants		
	1961	1971	1981	1961	1971	1981	1961	1971	1981
AP	0 44	0.47	0.39	3.42	2.76	1.77	0.97	0.92	0.72
Assam	2.34	1.53	–	11.45	8.7	–	3.11	2.22	–
Bihar	0.51	0.38	0.23	5.43	3.81	2.35	0 97	0.75	0.51
Gujarat	0 78	0.67	0.74	5.16	4.01	3.56	1.94	1.66	1.65
Haryana	–	2.82	2 11	·	10 50	10.44	–	4.22	3.97
HP	3 14	2.21	2 31	18.43	17.62	10.07	3.95	3.43	2.98
J and K	0.46	0.98	0 72	1.97	2.60	2.01	0.72	1.29	1.0
Karnataka	1.89	1.33	1.04	0.72	4.22	3.71	3.14	2.08	1.83
Kerala	0.78	0.70	0 84	1.95	1.80	1.36	0.96	0.90	0.94
MP	1.44	0.94	0.70	12.10	6.41	4.24	3.05	1.88	1.44
Maharashtra	0.91	0.78	1.18	11.83	7.93	6.77	4.23	3 19	3.27
Orissa	0.55	0.65	0.58	7.66	7 70	4.70	1.05	1.03	1.09
Punjab	1.12	1.25	1.57	6 99	7.32	6.27	2.33	2.71	2.93
Rajasthan	0.97	0.89	0.87	4.16	3 80	3.20	1.52	1.43	1.37
TN	0.45	0.42	3.02	3.13	2.47	1.76	1 17	1.06	1.97
UP	0.30	0.33	0.25	3.18	2.48	1.33	0.69	0.65	0.45
WB	1 96	1.32	0.56	13.56	4.23	3.73	5.10	2.39	1.49
India	0 92	0.82	0.69	7.86	5.39	4.41	2.24	1.80	1.61

Source: Based on data obtained from Migration Tables, Census of India.

TABLE 7: RATE OF NET INTERSTATE MIGRATION (INTERCENSAL) IN SOME MAJOR STATES DURING 1961, 1971 AND 1981

States	Rural			Urban			Total		
	1961	1971	1981	1961	1971	1981	1961	1971	1981
AP	–0.91	–0.45	–0.07	0.45	0.41	–0.78	–0.67	–0.16	–0.24
Assam	1.66	0.85	–	8.31	2.59	–	2.23	0.97	–
Bihar	–2.71	–1.41	–0 43	0.74	0 55	–5.96	–2.39	–1.34	–1.19
Gujarat	–0.63	–0.23	0.34	1.88	1.87	1.21	0.03	0.38	0.62
Haryana	–	0.45	0.91	–	–0.49	0.93	–	0.29	0.93
HP	0.11	–0.47	1 28	6.42	–3.71	–18.83	0.45	–0.76	–0.42
J and K	–1.16	0.27	0.17	2.2	–3.68	–1.46	–1.34	–0.54	–0.18
Karnataka	0.58	0.26	0.12	–2.98	0 75	0.55	1.27	0.4	0.19
Kerala	–1.78	–0.96	0.23	–7.1	–5.28	–7.77	–2.59	–1.71	–1.29
MP	0.61	0.29	–0.07	9.52	3.73	1.6	1.95	0.87	0.28
Maharashtra	–0.15	0.06	0.53	9.78	5.36	5.05	2.86	1.85	2.21
Orissa	–1.17	–0.23	0.14	3.58	4.76	0.36	–0.84	–0.08	0.15
Punjab	–2.57	–1.78	–0.02	0.83	–1.07	0.65	–1.88	–1.67	0.2
Rajasthan	–1.84	–1.04	0.09	–0.95	–0.32	–2.49	–1.7	–0.94	–0.48
TN	–1.62	–0.49	–5.30	–0.13	0.13	–0.88	–1.22	–0.31	–1.62
UP	–2.03	–1.38	–2.60	–1.9	–2.28	–8.54	–2.02	–1.55	–1.79
WB	1.26	0.76	0.18	12.05	1.43	1.98	4.18	1.22	0.72

Source: Based on data obtained from the Migration Tables, Census of India.

developed states have observed a positive net inmigration at all the three points of time.[4] However, there has been a steep and consistent decline in the rates of net inmigration in most of these states like Karnataka, Maharashtra, Tamil Nadu and West Bengal Correspondingly, the rate of population loss through net interstate migration has gone down quite substantially in the backward states. Among the backward states, Madhya Pradesh reports positive values for net interstate migration at all the three points of time while Orissa becomes net inmigrating state in 1981.

It is not possible to analyse the mobility pattern during 1980s, as the migration data at all-India level for the year 1991 have not yet been published by the Population Census. An attempt has, therefore, been made to estimate the interstate migration during the 1980s on the basis of the difference between the actual population count and the projected population for 1991, as presened in Table 8. The population figures at the state level have been projected by using the average of the natural growth rate of population for each state for the two preceding decades, taking rural and urban areas separately (column 3). Applying the female-male ratio, as reported by the Population Census (column 4), the population estimates for the males have been worked out (column 5). Since the estimated total of male population for the country as a whole, obtained by aggregating the state level figures, varies from the actual total, a correction factor has been worked out which is the ratio of the actual to the estimated total population. Now, by multiplying the state level estimates by the correction factor, we obtain the revised estimates of the state population, excluding the migrants (column 8). Estimated net interstate migration for the 1980s – the difference between the actual population count and the revised estimates – is given for the major states in column 9 in Table 8.

It is interesting to note that several backward states, namely, Andhra Pradesh, Himachal Pradesh, Madhya Pradesh and Rajasthan have positive net interstate migration during 1981-91. The developed states, on the other hand, have registered negative net interstate migration barring Maharashtra and West Bengal. One can possibly explain this in terms of the natural growth rates in many of the developed states during 1981-91 being less than the average as estimated above. However, substantial outmigration or return migration in case of the developed states emerges as a strong possibility. One can also argue, based on the results of Table 8 that the development process in the backward states is drawing many migrants from other states.

Migration data from the Population Census of 1991 for a few states have recently become available. Interestingly, an analysis of this data [Premi 1996] confirms the trend observed for the preceding decades. Also this broadly corroborates the results, derived for the 1980s based on our conceptual model, as presented in Table 8. Table 9A gives the aggregative data on lifetime interstate migrants for the states of Andhra Pradesh, Haryana, Karnataka, Kerala, Punjab and Tamil Nadu (for which the data could be available) for four census years. It may be noted that the percentage of the migrants among males has declined systematically since 1971, both for rural as well as urban areas. The fall is sharp during 1981-91, the

Table 8 Estimation of Interstate Net Male Migration during 1981-91 in Larger States

		Population in 1981 (1)	Estimated Natural Growth in Pop (2)	Estimated Pop in 1991 (3)	Sex Ratio, 1991 (F/M)x1000 (4)	Estimated Male Population 1991 (5)	Estimated Male Pop 1991 (R+U) (6)	Actual Male Pop 1991 (7)	Corrected Male Pop 1991 (8)	Net Male Migration (9)
Andhra	R	41063450	18.0	48454871	980	24472157	32081074	33724581	33047472	677109
Pradesh	U	12487576	19 3	14860215	953	7608917				
Bihar	R	61195744	22.2	74658808	942	38444288	44245879	45202091	45578725	–376634
	U	8718990	22 3	10663325	838	5801591				
Gujarat	R	23484146	21.5	28533237	954	14602475	21477419	21355209	22124397	–769188
	U	10601653	23.6	13103643	906	6874944				
Haryana	R	10094732	26 5	12769836	870	6828789	8685308	8827474	8946941	–119467
	U	2827387	22	3449412	858	1856519				
Himachal	R	3954847	17.1	4631126	989	2328369	2531898	2617467	2608168	9299
Pradesh	U	325971	13.2	368999	813	203529				
Karnataka	R	26406108	18.3	31238426	975	15816925	22378235	22951917	23052348	–100431
	U	10729606	17.9	12650205	928	6561310				
Kerala	R	20682405	15.9	23970907	1035	11779315	14500378	14288995	14937182	-648187
	U	4771275	15 6	5515594	1027	2721063				
Madhya	R	41592385	22 2	50825894	949	26077934	32896331	34267293	33887287	380006
Pradesh	U	10586459	21.6	12873134	888	6818397				
Maharashtra	R	40789224	19 5	48743123	979	24630178	38520869	40825618	39681257	1144361
	U	21993594	17 6	25864467	862	13890691				
Orissa	R	23259984	17 6	27353741	993	13724908	15702663	16064146	16175684	–111538
	U	3110287	18.4	3682580	862	1977755				
Punjab	R	12141158	21 1	14702942	886	7795834	10807162	10778034	11132713	–354679
	U	4647757	20.9	5619138	866	3011328				
Rajasthan	R	27051354	24.8	33760090	924	17546824	22296237	23042780	22967880	74900
	U	7210508	23.7	8919398	878	4749413				
Tamil Nadu	R	32456202	13.8	36935158	984	18616511	27969296	28298975	28811832	–512857
	U	15951875	14.8	18312753	958	9352785				
Uttar	R	90963397	23.9	112703649	888	59694729	72720971	74036957	74911590	–874633
Pradesh	U	19899115	21.3	24137626	853	13026242				
West	R	40133926	22 8	49284461	943	25365137	34207662	35510633	35238121	272512
Bengal	U	14446721	12 5	16252561	838	8842525				
India	R	502880692	21 1	608988518	946	312943740	411172370	423558369	423558369	–
	U	156419768	18.5	185357425	887	98228630				

Notes: (1) All-India figures exclude Assam and J and K (2) Correction factor (CF) has been worked out on the basis of all-India estimated population and actual population The formula is CF = population count in 1991/(Estimated Population in 1991). =(411172370 – 423558369)/411172370 = –1.030123617. The corrected estimates of male population in 1991 have been worked out by multiplying the estimated male population by 1.030123617.

percentage figure coming down from 2.0 to 1.1 in rural areas and from 7.6 to 5.1 in urban areas. Importantly, the figure has come down even for the females from 4.3 per cent to 3.5 per cent during this period. There is, thus, no doubt that an average Indian has become less mobile since the early 1970s, the process being rather sharp in case of the decade 1981-91.

Furthermore, the percentage of interstate migrants (to the total migrants) seems to have gone down marginally, as one would infer from the figures for the southern states in Table 9B. The increase in the figure in the case of Punjab and Haryana can be attributed to the socio-political disturbance in the region which has caused a lot of population mobility. The decline in the movement between the states of Punjab and Haryana can, however, be inferred from the fact that the percentage of lifetime migrants in Punjab coming from Haryana (to the total lifetime migrants in Punjab) is higher than the corresponding figures for intercensal or current migrants in 1991. The same is true for the migrants from Punjab to Haryana (Table 9C). One would infer that present level of movement between the states is much less than what has been observed historically.

Interstate Disparities.

Migration, urbanisation and regional disparity are strongly interrelated. An attempt to understand the underlying forces and their interrelations would be extremely useful in the context of the development dynamics in a large country like India, as discussed at the very outset of the paper. Scholars have analysed the spatial structure of development based on the trend in net state domestic product (NSDP) in per capita terms, across the states. There seems to be a general agreement that regional disparity has gone up since the mid-1960s, after a slight decline in the 1950s and early 1960s. The Task Force on Urban Development (1983) reports an increase in the disparity, measured in terms of coefficient of variation (cv), in per capita NSDP. The figure has gone up from 23 per cent in 1961 to 26 per cent in 1971 and further to 32 per cent in 1981. Taking the average value for five years, it is observed that the cv was 22.6 per cent only for the period 1970-75 which increased to 29.1 per cent for 1980-85. In the year 1993, the cv has gone up further to 32.2 per cent [Kundu 1996]. Hashim has computed three yearly averages for per capita state incomes around the base year for 1971, 1981 and 1991. The cvs are computed as 31.5, 37.2 and 39.2 for the three time points, respectively.

The disparity can be noted to be going up in terms of various other economic indicators as well. The interstate disparity in monthly (per capita) consumption expenditure has increased from 11.1 per cent in 1973-74 to 17.3 in 1992, as per the data available from the National Sample Surveys. Similar increases in disparity can be noted in case of other infrastructural facilities and basic amenities like power consumption, transport system, health services, etc. In some of the social dimensions like access to education, water supply and sanitation facilities, the regional disparity has, however, registered a decline. But in the other social dimensions, viz, incidence of poverty, population growth, infant mortality rates, etc, the disparity has gone up.

That the inequality should increase in terms of these crucial indicators, despite the planning strategy in India designed with the avowed objective to reduce it, must make the planners concerned about the inadequacy of their efforts and the nature of inherent growth dynamics in the country. At a higher level of generalisation, one would argue that despite an acceleration in economic growth in many of the less developed countries and reduction of spatial inequality at the global level, after launching of the programmes of liberalisation, regional imbalance within the countries can go up in important economic and social dimensions. Clearly, India is a case in hand, wherein regional inequality has increased despite high economic growth. Particularly important is the fact that during the 1980s, when the economy was growing at about 5.5 per cent annually in real terms – which is a record by any standard – there was an accentuation of interstate inequality.

Spatial disparity in development should, *ceteris paribus*, encourage migration towards the developed states and regions, as per the neoclassical models of growth and labour mobility. Interestingly the migration pattern in India, as observed through the data of 1961, fits well in these models that assume that optimality in the spatial distribution of economic activities in the long run would be brought about through free movement of the factors of production. Indeed the backward states had high rates of outmigration while the developed states were absorbing these migrants.

In recent decades, however, migration in general and interstate migration in particular, shows a different pattern, as discussed above. Despite significant increase in regional disparity, migration has gone down. The outstanding feature of the changing pattern of migration is a clear shift from the colonial pattern wherein people moved from the impoverished hinterland to a few developed regions or large cities, often across the states. As a result, the developed states in the 1990s report a much lower percentage of inmigrants than in the previous decades. As a corollary to that, outmigration from the backward states has gone down. Besides, there is an increasing incidence of intra-state migration, in relative terms, especially in these states.

Some scholars have explained the decline in interstate migration [Mehrotra 1974] in terms of developmental programmes, launched by the state governments in the post-independence period. Persons who used to migrate out of the backward areas in search of jobs are now often able to find means of livelihood at their own places. Availability of education, health and other services has also stabilised the population in backward regions, it is argued. Similarly, better communication and transport facilities have alleviated the need to move for employment, study, etc, since people can now commute to distant cities, providing employment. Undoubtedly, there is some truth in these arguments but they do not explain the growing immobility of population in a satisfactory manner. Also, an analysis of regional structure of development would discount this hypothesis since inter-state inequality in several dimensions of economic and social development has gone up over the years, as discussed above. A better

Table 9A: Percentage of Lifetime Interstate Migrants for Andhra Pradesh, Haryana, Kerala, Punjab and Tamil Nadu

		1961	1971	1981	1991
Males	Total	2.3	3.7	3.5	2.2
	Rural	1.2	2.2	2.0	1.1
	Urban	6.4	8.7	7.6	5.1
Females	Total	2.6	4.2	4.32	3.5
	Rural	1.8	3.0	3.0	2.5
	Urban	5.5	8.0	7.9	5.8
All	Total	2.4	3.9	3.9	2.8
	Rural	1.5	2.6	2.5	1.8
	Urban	6.0	8.4	7.7	5.4

Table 9B: Percentage of Lifetime Interstate Migrants to Total Internal Migrants by the Type of Movement (Based on Their Place of Last Residence) 1991

		1971	1981	1991
Punjab and	M	30.61	33.02	35.17
Haryana	F	18.26	18.85	19.85
AP, Karnataka	M	10.13	9.44	9.02
Kerala and TN	F	6.08	6.20	6.12

Table 9C: Percentage of Interstate Migrants in Specific States from Some Other States, 1991

	Lifetime		Intercensal		Current	
	M	F	M	F	M	F
From Haryana to Punjab	15.2	34.3	12.4	29.2	10.4	19.8
From Punjab to Haryana	22.9	23.4	17.7	22.6	12.8	17.8

explanation can possibly be found in terms of growing assertion of regional identity, education (up to high school) in regional languages, adoption of master plans and land use restrictions at the city level, etc, all these directly or indirectly discouraging migration [Kundu 1983]. This would seriously discount the proposition that the mobility of the factors of production, operationalised through the market, would automatically ensure optimal distribution of economic activities in space.

Another complementary explanation of this changing scenario of migration can be provided in terms of increase in intra-state inequality in the post-independence period. In each state, a few large cities – usually the state capitals – emerged as centres of industrial investment as these had an advantage of having an industrial base and a higher level of basic services. These centres received a large chunk of the subsidised amenities provided through their state governments that attracted the elites, professionals and industrialists. As a consequence, most of the backward regions or districts received very little of the subsidised amenities and of the private investment coming into the states. This resulted in movement of people from backward to developed regions/large cities within the state. Besides, growth of agriculture was extremely uneven in space, increase in land and labour productivity being restricted to a few districts only, due to the strategy adopted in the late 1950s and early 1960s. This sharpened inequality and encouraged intra-state migration, particularly from rural to urban areas.

It is also striking that many of the backward states have experienced rapid urban growth during the past three decades [Kundu 1992]. The fast growth here is due to the rapid growth of small and medium towns and emergence of new towns. A sizeable proportion of these fast growing and new towns are tahsil or taluk headquarters. It may be argued that with the decline in interstate migration, the small and medium towns, located in the backward states, are absorbing migrants from the impoverished hinterland. Many among these have a low level of basic services and poor quality of infrastructure. These may, therefore, be growing without any capacity to sustain the incremental population. This indeed should be a matter of concern for the policy-makers.

The problem of decline in the rate of outmigration from the backward states, namely, Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh and their absorption within the rural areas and in small and medium towns becomes far more serious since these have high rates of natural growth. Indeed, the burden of absorbing the growing labour force productively in the economy has become more difficult in recent years with the fall in the rate of outmigration from the backward states.

Economists advocating the opening up policy in agricultural sector have argued that a 'suction mechanism' is in operation within the Indian agrarian system whereby the regions with high and growing land productivity are able to attract migrant workers from other regions. This, they believe, results in equalisation of labour productivity in space. Analysing the data on land productivity and labour absorption from a different analytical perspective, Alagh, Bhaduri and Bhalla (1982) have come to a similar conclusion. It is possible to use their stipulation to build up a rationale for adopting a development strategy in agriculture, focusing on only select regions having a high growth potential, as often proposed under the liberalisation policy. However, with a sluggish growth in rural to rural migration (also interstate urban rural migration which has a component of agricultural labourers), the possibility of migrant workers, coming from across districts and states sharing the benefits of concentrating agricultural development strategy in a few districts seems rather bleak. Unless the reasons for increasing immobility are properly understood and the factors responsible for it appropriately tackled, it would be dangerous to follow the strategy of pumping in subsidised techno-chemical inputs in select districts or leave the process of agricultural development to be determined by global market forces.

The growth of manufacturing sector in the 1990s is also likely to be concentrated in a few developed states and large cities as the locational controls and programmes to promote industries in backward regions are being gradually withdrawn. This would invariably accentuate the interstate and intra-state disparity in industrial development. As a consequence, urban growth, too, may get further polarised around a few big industrial centres and the problem of finding productive employment in the backward states, particularly in their backward districts, would become far more serious in future years.

To conclude, the decreasing mobility of the population poses a major challenge for the development strategy being followed in countries like India and their development perspective. The policy of unbalanced development, if continued despite this ominous trend, can have serious negative implications. It is, therefore, important that these implications are examined with empirical rigour. Also, measures should be worked out, if possible, to stall this declining migration trend. However, if the dynamics of population distribution happens to be largely beyond the scope of governmental policies, there seems to be no choice but to adopt a policy of balanced regional development and disperse economic and employment opportunities to backward regions through a planned effort.

Notes

1 The deceleration in the growth rate of lifetime migrants can not be explained in terms of mortality factor associated with the international migrants (born in Pakistan or Bangladesh, coming to India at the time of partition) over the years, since we have taken only the internal migrants into consideration.

2 The regional analysis has been done by taking male migrants only and all the tables onwards take only the males into consideration.

3 Orissa, too, reports a high percentage of migrants but only in urban areas, followed by Bihar.

4 Punjab of course is a special case in this context because of the division of the state in 1966, as mentioned in the text above.

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IDBI

FOR the first six months of 1996-97 the Industrial Development Bank of India (IDBI) has posted a net profit of Rs 514 crore against Rs 503 crore in the corresponding period last year. Due to a comparatively lower number of large projects assisted during this period, overall sanctions declined from Rs 10,836 crore in the first half of the previous year to Rs 8,342 crore. While total operating income of the company during the period rose by 18 per cent to Rs 2,776 crore, income from direct loans, which is the major segment of IDBI's business, recorded a growth of 24 per cent.

Restructuring the Tax System

Hiranya Mukhopadhyay

I

IN a recent paper K Sundaram, V Pandit and B Mukherji (henceforth KVB) argued that cascading type tax (CAT) is better than VAT (or rather, rebate-adjusted tax system, RAT) because it can generate same revenue (sector by sector) and replicate VAT prices with lower *ad valorem* duty rates, thus providing' lower incen-tives for tax evasion.[1] It is worth mentioning that whenever pricing is done on the basis of total cost (including input duty) and then allow for set-off for input duty, revenue neutrality will not make any difference between the pre-VAT and post-VAT prices. Prices will be identical. That is precisely the reason for the result cited in their paper. The price equation in their paper with the multiplicative mark-up is,

$$v_1 = (1+s_1)(1+\theta_1)(wa_{01}+a_{21}v_2) - s_2a_{21}v_2/(1+s_2)$$

where, v_i's and s_i's are duty inclusive prices and *ad valorem* tax rates in two sectors. Needless to say, pricing is done on the basis of total cost inclusive of input duty.

II

Let us elaborate our point with the help of a fixed coefficient production function. The price equation with fixed coefficients of production is,

$$P = \{\Sigma a_i(1+t_i)p_i+W\}(1+r) \qquad (1)$$

Where,

a_i's are the input-output coefficients
t_i's are the respective *ad valorem* duty rates levied on inputs
p_i, the input prices exclusive of duties
W, wage cost inclusive of other manufacturing cost
r, is the mark-up rate

In the above expression, total input duty is given by

$$T = \Sigma a_it_ip_i \qquad (2)$$

If the finished product is taxed at the *ad valorem* rate 't', the duty inclusive price P' is given by,

$$P' = P(1+t) \qquad (3)$$

Note that P' can also be written in the following way:

$$P' = [\{\Sigma a_ip_i+W\}(1+r)] + [\{\Sigma a_ip_i+W\}(1+r)t] + T + T\{t(1+r)+r\} \qquad (4)$$

In equation (4), the first term refers to total production cost, the second and third term refer to total excise revenue (net of duty on input duty (tT) plus duty on mark-up on input duty (trT)) on output and input respectively and the last term to cascading effect.

Under the VAT scheme, when prices are set on a 'net cost' basis with set-off, the price equation is given by,

$$P^* = [\Sigma a_ip_i(1+t_i) + W - \Sigma a_ip_it_i](1+r) \qquad (5)$$

which is simplified to

$$P^* = [\Sigma a_ip_i + W](1+r) \qquad (6)$$

and the final price is determined by

$$P'' - P^*(1+t) \qquad (7)$$

Revenue neutrality in the case of 'net cost pricing' implies that pre-VAT revenue is equal to post-VAT revenue. That is,

$$[\Sigma a_ip_i(1+t_i)+W](1+r)t+T=[\Sigma a_ip_i+W](1+r)t'$$

Therefore, statutory duty rate of the final good after VAT(t') is (henceforth, $\Sigma a_ip_i + W$ is denoted by c),

$$t' = t\{1+(\Sigma a_ip_it_i(1+r))/c(1+r)\} + T/c(1+r) \qquad (8)$$

$$t' = t(1+T/c) + T/c(1+r) \qquad (9)$$

It may be noted, $\Sigma a_ip_it_i=T$. The new price level after substituting equation (9) into equation (7) is,

$$P'' = P^*(1+t') = c(1+r)(1+t')$$
$$= c(1+r)\{1+t(1+T/c)+T/c(1+r)\}$$

$$P'' = c(1+r)(1+t) + T + tT+trT \qquad (10)$$

It may be recalled from equation (4) the pre-VAT price level is,

$$P' = c(1+r)(1+t) + T + Tt+Ttr+Tr \qquad (11)$$

Due to the VAT scheme, the term 'Tr' disappears from equation (10), but the revenue consideration forces the term T+T(t+tr) to remain in equation (10). Therefore, the post-VAT price level is lower than the pre-VAT price level.

Revenue neutrality in the case of 'total cost pricing' with set-off implies,

$$[\Sigma a_ip_i(1+t_i)+w](1+r)t + T = [\Sigma a_ip_i(1+t_i) + w](1+r)t'$$

where t' is the post-VAT duty rate on the final good

$$t' = t + T/(1+r)(c+T), \quad c = \Sigma a_ip_i+w \qquad (12)$$

New price level is,

$$P'' = (Sa_ip_i(1+t_i)+w)(1+r)(1+t') - T \qquad (13)$$

It can be shown that after substituting for t', P'' is,

$$P'' = c(1+r)(1+t) + T+T(t+r+rt) = P'$$

(see equation 4)

Needless to say, pricing on the basis of total cost is not based on sound principle under the VAT (or RAT by their terminology) scheme. A survey conducted by the NIPFP in 1990 revealed that out of 128 responses received, a majority (56 per cent) of them reported pricing on a net cost basis (A V L Narayana et al (1991)).[2] Therefore, we believe that their recommendation in favour of a CAT, because it can generate same revenue and identical prices with lower duty rates, is not correct. Consequently, the criticisms laid by the authors in their paper against the Tax Reform Committee Report and NIPFP (1994) are unjustified.[3]

Notes

[I thank Amaresh Bagchi, D K Srivastava and Pawan Aggarwal for valuable comments. The usual disclaimer applies.]

1 K Sundaram, V Pandit and B Mukherji, 'Restructuring the Tax System in India: A Reappraisal of Key Issues', *Economic and Political Weekly*, July 1, 1995.

2 A V L Narayana, Amaresh Bagchi and R C Gupta, *The Operation of MODVAT in India*, NIPFP, 1991.

3 National Institute of Public Finance and Policy, *Reform of Domestic Trade Taxes in India: Issues and Options*, 1994.

Engels and Women's Property Rights

B R Bapuji

THIS brief article offers a couple of comments on Bina Agarwal's (1994:12-14) claims with regard to her "significant departure" from and "critical additional point" to the "standard Marxist analysis" in general and Engels (1884) in particular concerning the links between gender subordination and property.

Bina Agarwal interprets Engels as arguing that gender relations are hierarchical in bourgeois families and 'egalitarian' in proletarian families. This is a wrong reading of Engels since Engels had simply observed that there is "no stimulus" to assert male domination in the absence of all property among the proletariat. Moreover, due to the position of woman as "the bread-winner" of the family, male domination in the proletarian home has lost its "foundation" except the "brutality towards women which became firmly rooted with the establishment of monogamy" [Engels 1884:72]. How can anyone interpret "brutality toward women" as "egalitarian gender relations"?

Bina Agarwal observes that Engels by-passed the issue of women's property rights altogether by advocating the abolition of all private property as the solution. This, again, is a misinterpretation of Engels since there is nothing that Engels "by-passed". If Engels argues for the retention of property rights of men alone, then we can conclude that he "by-passed the issue of women's property rights". Bina Agarwal therefore, does not base her conclusion on any solid ground. Further, Bina Agarwal is curious to know Engels' answer to the question: "What would be the impact on gender relations in propertied households if the women too were propertied as individuals?". This question is very abstract and elusive in that it does not specify the class nature of that 'property' or those 'propertied households'. Do these households own/control 'bourgeois' property (that enables them to exploit the surplus labour of others) or small property of the independent producers or petty bourgeoisie (which involves the labour of all the family members including 'women')?

If Bina Agarwal is referring to the owning/controlling of the former kind of property by women, then the gender relations between an individual bourgeois propertied woman (wife) and an individual bourgeois propertied man (husband) would be 'egalitarian' because both these men and women need not work either at home (here the work is done by the domestic proletarians and not by the individual bourgeois propertied women) or outside (here the work is done by the industrial proletariat). But if Bina Agarwal is curious to know the impact of women possessing property rights individually on gender relations among the landless agricultural labourers or independent producers/peasants, then the gender relations would be either equal (if men also do the housework) or unequal (if women alone do the housework). The history of the Peoples Republic of China testifies this fact. The Chinese rural women participated in the anti-feudal agrarian revolution, got land rights individually in their names and yet all housework was left to them. Only in certain areas and only during certain brief periods (e g, the Cultural Revolution), due to their struggle against the exploitative division of domestic labour, Chinese women were free from gender inequalities. This is what Engels' statement implies when he says, "The emancipation of women becomes possible only when...domestic duties require their attention only to a minor degree" (1884:158). Hence, what is needed is not simply the ownership/control of women over property but also a radical transformation of domestic division of labour whereby "domestic duties require their [women's] attention only to a minor degree".

Since Bina Agarwal used the expression "Engels' analysis and associated discussions" it is not out of place to quote Lenin's (1919:71) analysis here: "You all know that even when women have full rights, they still remain downtrodden because all housework is left to them. In most cases housework is the most unproductive, the most savage and the most arduous work a woman can do. It is exceptionally petty and does not include anything that would in any way promote the development of the woman." Therefore, Bina Agarwal's claim that her argument that women should have individual control over property is a "critical additional point missed out in Engels' analysis and associated discussions" is untenable.

Bina Agarwal makes a theoretically naive observation that certain societies "underwent socialist revolutions" and yet "gender-egalitarian mechanisms of control" went "unrealised". She refers to Molyneux's (1981) essay 'Socialist Societies, Old and New: Progress toward Women's Emancipation' in support of her contention. The theoretical tragedy of Molyneux's essay and Bina Agarwal's conclusion lies in the fact that those societies never "underwent socialist revolution". Those societies either followed the path of party/state capitalism (e g, former Soviet Union) or made unsuccessful attempts, merely preliminary attempts, at a socialist revolution (e g, China).

According to Marx's *Critique of Political Economy*, a society is said to have undergone socialist revolution if and only if that society has revolutionised or is in the process of revolutionising the exploitative division of labour in such a way that no single individual (man or woman) is tied down to a single kind of labour whether it is housework or outside work, whether it is mental labour or manual labour, whether it is administrative tasks or performance tasks and so on.

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